

CORRUPTION AND MULTILATERAL DEVELOPMENT BANKS:  
THE ROLE OF THE INTER-AMERICAN BANK IN LATIN  
AMERICA AND THE CARIBBEAN

A Thesis

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## Dedication

*To my grandmother.*

## **Acknowledgments**

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## List of Abbreviations

AfDB	African Development Bank
ADB	Asian Development Bank
BMC	Borrowing Member Countries
CPI	Corruption Perceptions Index
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
GDP	Gross Domestic Product
MDBs	Multilateral Development Banks
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LO	Loan Operation
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OVE	Office of Evaluation and Oversight
PEM	Public Expenditure Management
PFM	Public Financial Management
RBM	Results Based Management
TC	Technical Cooperation
TI	Transparency International
UNCAC	United Nations Convention against Corruption
UNODC	United Nations Office on Drugs and Crime
WB	The World Bank

## **1. Introduction: Corruption and Its Effects on Economic Growth**

### **1.1 Corruption: What Is It?**

According to Transparency International (TI), corruption may be defined as “the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs (International, 2017)”. The organization publishes the Corruption Perceptions Index (CPI)<sup>1</sup>, which measures worldwide how the levels of corruption at the public sector is perceived. (International, 2015). Its data shows that corruption is excessive in more than 70 countries around the world (Hodgson & Jiang, 2007).

According to the United Nations Office on Drugs and Crime:

Corruption is a complex social, political and economic phenomenon that affects all countries. Corruption undermines democratic institutions, slows economic development and contributes to governmental instability. Corruption attacks the foundation of democratic institutions by distorting electoral processes, perverting the rule of law and creating bureaucratic quagmires whose only reason for existing is the soliciting of bribes. Economic development is stunted because foreign direct investment is discouraged and small businesses within the country often find it impossible to overcome the "start-up costs" required because of corruption (UNODC, 2017).

Apart from international organizations, the academy is also concerned over what corruption is.

A common definition of public corruption is the misuse of public office for private gain. Misuse, of course, typically involves applying a legal standard. Corruption defined this way would capture, for example, the sale of government property by government officials, kickbacks in public procurement, bribery and embezzlement of government funds (Svensson, 2005, p. 20).

Svensson (2005) addresses that different theories may explain the reasons why some countries are more corrupt than others. Institutional theories focus on institutional quality and economic factors. “In short, institutions develop in response to a country’s income level and

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<sup>1</sup> A further debate on CPI will be done in Chapter 2.

differential needs (Svensson, 2005, p. 25). Complementarily, human capital theories look at per capita income and education as fundamental causes of corruption. Traditions, colonization processes, income level, economic and political institutions are other areas to be looked at while analyzing corruption.

These associations suggest some general conclusions. First, corruption is closely related to GDP per capita and to human capital. These correlations are consistent with the economic and human capital theories of institutional development, but the correlations could also be driven by reverse causality or omitted variables. Second, for a given level of income, the extent of corruption still varies greatly. The cross-country evidence suggests that this variation can partly be accounted for by the degree of market and political competition. (Svensson, 2005, p. 29)

Another important consideration is of corruption as a self-fulfilling prophecy:

Scholarship on corruption has long emphasized the notion that corruption may corrupt. In particular, a number of scholars have developed the argument that levels of corruption may emerge endogenously as a result of a society-wide coordination game in which the individual returns to corrupt behavior are a function of the inclination towards corruption of the other members of society (...). This view of corruption as a coordination game has some relatively straightforward empirical implications. One of these is the expectation that the higher the level of perceived corruption in a society, the more likely it is that individual members of that society would be willing to engage in corrupt behavior. In other words, corruption behaves as a self-fulfilling prophecy (Gingerich, Oliveros, Corbacho, & Ruiz-Vega, 2015, p. 2).

The World Bank (WB) understands that corruption can be “the single greatest obstacle to economic and social development” (Hodgson & Jiang, 2007, p. 1043), while, as Svensson (2005) described, some can perceive it as both in a good or bad way.

Corruption is an outcome—a reflection of a country’s legal, economic, cultural and political institutions. Corruption can be a response to either beneficial or harmful rules. For example, corruption appears in response to benevolent rules when individuals pay bribes to avoid penalties for harmful conduct or when monitoring of rules is incomplete—as in the case of theft. Conversely, corruption can also arise because bad policies or inefficient institutions are put in place to collect bribes from individuals seeking to get around them (Svensson, 2005, p. 20)

This perception of corruption as a good thing has long been overcome.

Since the 1960s, some have argued that corruption is the grease on the wheels of development. Inefficient bureaucracies need graft to help circumvent roadblocks of excessive red tape or unmotivated civil servants, increase efficiency and improve outcomes in investment and overall

economic growth (...). This line of argumentation has been pushed back with a slew of empirical research. Numerous widely cited articles now document the deleterious effects of corruption on governance and the rule of law, on economic growth and public investment, and more. Nevertheless, in the real world, corruption is still a scourge. Recent events in Latin America have reminded us just how harmful corruption can be. But once the tide of scandals and protests has subsided, will anyone care about corruption? As policymakers and civil servants navigate the turbulent waters of anti-corruption policy design and implementation, perhaps it is useful to focus on a timeless outcome: money. Simply put, when a country suffers from corruption, everyone pays. And when a country improves its corruption indicators, everyone stands to gain (Roseth & Santiso, 2016).

But, is corruption a factor to be added to understand economic growth?

## **1.2 Economic Growth: An Introductory Discussion**

Economic growth is commonly associated with GDP, the Gross Domestic Product, which is defined as a “measure of the value of all of the goods and services produced in a country or equivalently as the total income, in the form of wages, rents, interests and profits, earned in a country (Weil, 2008, p. 5)”.

Some factors may influence the growth or decline of a GDP, including consumer consumption/spending and productivity capacity. It can be calculated as the sum of consumer spending (C) added to total investments (I), plus government spending (G) and net exports, which is exports minus imports (X-M). Therefore, the equation to calculate the GDP is:

$$GDP = C + I + G + (X - M)$$

This thesis assumes GDP as the measure of economic growth, but acknowledging the problems of making this decision.

Using GDP to measure a country's well-being is not without its problem. Many aspects of economics well-being are not measured by GDP, and there are serious conceptual and practical problems in measuring and comparing GDP across countries or in a single country over time. Despite these backwards, however, GDP remains rough and ready measure of standard of living. (Weil, 2008, p. 6).

As seen above, corruption is not part of the equation on GDP. But one factor there that interests this thesis is, which is “Government”.

### **1.3. Growth, Governments and Corruption**

Weil (2008) states that there are many ways that government may affect growth, since it can influence accumulation of physical and human capital, and influence the speed of technological progress.

However, the area in which government play its most important role is efficiency. Through taxation, regulation, administration of laws, and a host of other tools, governments create the environment in which firms and workers go about their activities. By setting the “rules of the game” for the economy, governments can profoundly affect economic development (Weil, 2008, p. 341).

All the factors above may lead to as good acting of governments towards development and growth, but there are moments in which they do things that are bad for growth, and corruption is one of those.

A second reason that governments do things that are bad for growth is that those who staff the government are acting in their own self-interest rather than in the interest of the country they are governing. Government corruption may take many forms. (...) When corruption reaches to the highest levels of government, it is labeled kleptocracy, meaning “rule by thieves” (Weil, 2008, p. 355)

Although corruption may lead to a negative impressions and thoughts, many economists argue that it can be good for growth. Svensson (2005) states that “corruption could conceivably have a positive effect on economic growth. The proponents of “efficient corruption” claim that bribery may allow firms to get things done in an economy plagued by bureaucratic hold-ups and bad, rigid laws (Svensson, 2005, p. 36)”.

### **1.4 The Thesis**

This present thesis has the objective of understanding what role can Multilateral Development Banks (MDBs) play on the fight against corruption? And, most importantly, how

does the Inter-American Development Bank addresses its anti-corruption actions and how effective they are?

MDBs are usually associated with fostering economic and social development for their clients. The discussion above had the point on trying to address how those points might connect: economic growth/governments/corruption/MDBs.

It will be done throughout the thesis and the work will be divided in five parts: (i) introduction; (ii) multilateral organizations and their role on fighting corruption; (iii) how are the Inter-American Development Bank's policies on anti-corruption and improving transparency; (iv) the presentation and analysis of the projects selected; (v) conclusion.



## **2. Multilateral Organizations and the Fight Against Corruption**

Why would a Bank care about corruption and what is possible for it to do to improve anti-corruption practices and improve transparency? This thesis has the objective of understanding the role played specifically by the Inter-American Development Bank in Latin America and the Caribbean (LAC), but before going through its policies and practices, it is important to understand what is the overall role performed by international/multilateral organizations on the fight against corruption. The following institutions will be analyzed, regarding their actions on the topic: United Nations Office on Drugs and Crime (UNODC), Transparency International (TI) and the World Bank (WB). Following, an overview on corruption in Latin America will be addressed.

### **2.1 Literature Review: Multilateral Organization on Corruption**

Why is fighting corruption an important objective in today's world? According to the United Nations Office on Drugs and Crime:

The concept of corruption is wide, including bribes and kickbacks, fraud, misappropriation of funds or any other diversion of funds by a public gent. Moreover, it can involve cases of nepotism, extortion, trading in influence, use of privileged information for personal purposes and selling of judicial sentences, among other practices (United Nations Office on Drugs and Crime, 2017).

*Transparency* is another important concept to be addressed, since it moves closely to anti-corruption policies. According to Transparency International:

Characteristic of governments, companies, organisations and individuals of being open in the clear disclosure of information, rules, plans, processes and actions. As a principle, public officials, civil servants, the managers and directors of companies and organisations, and board trustees have a duty to act visibly, predictably and understandably to promote participation and accountability and allow third parties to easily perceive what actions are being performed (Transparency International, 2017).

Corruption affects all countries around the world and it is a topic that can be approached in many different manners.

### **2.1.1. Multilateral Development Banks and Corruption**

But, what does Multilateral Development Banks (MDBs) even mean? According to Nelson (2015), “Multilateral Development Banks are international institutions that provide financial assistance, typically in the form of loans and grants, to developing countries in order to promote economic and social development (Nelson, 2015, p. 1). Those loans differ from each other in the following manner:

*Project loans* include large infrastructure projects, such as highways, power plants, port facilities, and dams, as well as social projects, including health and education initiatives. *Policy-based loans* provide governments with financing in exchange for agreement by the borrower country government that it will undertake particular policy reforms, such as the privatization of state-owned industries or reform in agriculture or electricity sector policies. Policy-based loans can also provide budgetary support to developing country governments. In order for the disbursement of a policy-based loan to continue, the borrower must implement the specified economic or financial policies. Some have expressed concern over the increasing budgetary support provided to developing countries by the MDBs. Traditionally, this type of support has been provided by the International Monetary Fund (IMF) (Nelson, 2015, p. 1).

In 2010, five leading Multilateral Development Banks signed the **Agreement for Mutual Enforcement of Debarment Decisions**<sup>2</sup>, that aimed to amplify the sanctions against entities engaging on fraudulent and corrupt practices (Seiler & Madir, 2012). The Banks were: The African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB) and the World Bank (WB).

By signing this Agreement, any company engaged in projects that had the support of those Banks were supposed to consider taking position on anti-corruption practices; if not, once discovered that they were engaging on corrupt practices, they would be subjects of sanctions.

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<sup>2</sup> Available at: <http://www.ebrd.com/downloads/integrity/Debar.pdf>

This agreement is to be understood as internal to the Banks' practices, and not as of them creating projects and programs to support combating corruption and improving transparency for the borrowing member countries.

Prior to the mid-1990s, MDBs relied primarily on their procurement policies to achieve these objectives. As a general rule, MDBs provide funding for public sector projects on the condition that the borrower selects the contractors in a competitive process, carried out in accordance with the procurement policies of the relevant MDB. The MDB then closely supervises the procurement actions of its public sector clients in order to ensure that they comply with the agreed procurement procedures (Seiler & Madir, 2012, p. 7).

Seiler & Madir (2012) presented a historical background on how the Banks worked together in the past, trying to harmonize concepts and practices. Together with IMF and the European Investment Bank (EIB), this how *corrupt practice*, *fraudulent practice*, *coercive practice*, and *collusive practice* were defined.

(1) A *corrupt practice* is defined as the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party. An example would involve a situation where a company is awarded an MDB-financed contract from government in exchange for a bribe or kickbacks. Kickbacks generally occur when a company that is awarded a contract 'kicks back' money to the ministry official(s) who steered the award of the contract to the company (Seiler & Madir, 2012, p. 9).

(2) A *fraudulent practice* is defined as any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. An example might involve a scenario where, during the implementation of a project, the poor performance of a key consulting company raises suspicion that the capacities and qualifications of the company might have been misrepresented. An investigation reveals that the experience and credentials of the principal, as well as the qualifications and certifications of the consulting firm were misrepresented in order to meet the selection criteria of the tender (Seiler & Madir, 2012, p. 9)

(3) A *coercive practice* is defined as impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.<sup>18</sup> An example would be a project where procurement for two MDB-financed roads is found to be tainted by the use of intimidation of competing bidders. An investigation reveals that a company that was predetermined to win contracts in a collusive scheme used a combination of threats to the future business interests of competitor companies or threats to the physical well-being of competitors' staff, in addition to payments to 'losing' bidders, to ensure that other bidders submitted inflated bids (Seiler & Madir, 2012, p. 10).

(4) A *collusive practice* is defined as an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party. An example would involve a situation where a borrowing government arrests an official of an agency that is responsible for implementing an MDB-financed project on charges of financial impropriety. On the basis of that arrest and subsequent information from a contractor, an

investigation of the relevant contracts is carried out, and reveals that the agency official had arranged a collusion 'ring' to steer a large number of contract awards to his own company and to the companies of people known to him/her. To implement the collusion, the agency official influenced local officials who had a role in awarding the contracts (Seiler & Madir, 2012, p. 10).

The sanctions on companies that act in corrupt manners is not the focus of this thesis, but how those Banks act to support their country members to fight corruption. Still, it is important to address how they work together on co-related issues.

## **2.2. The World Bank**

The World Bank (WB) was established in the 1944 at the Bretton Woods Conference and it is the largest and oldest of the MDBs (Nelson, 2015). It was designed to help reconstruction after the World War II but the focus has shifted to end poverty (McMahon, 2006).

Today, the IBRD<sup>3</sup> has near universal membership with 187 member nations. Only Cuba and North Korea, and a few micro-states such as the Vatican, Monaco, and Andorra, are non-members. The IBRD lends mainly to the governments of middle-income countries at market based interest rates. (...) The World Bank initially focused on providing financing for large infrastructure projects. Over time, this has broadened to also include social projects and policy based loans (Nelson, 2015, p. 2).

The WB and other MDBs usually lend money with lower interest rates and countries may have longer period to pay them back, compared to loan made with commercial banks. United States and wealthy European countries are its largest contributors (McMahon, 2006).

Being the biggest of the MDBs, how the WB views corruption dictates how other institutions will pursue the same issue, as acknowledged by Transparency International: "The sheer size of the World Bank means its view on corruption in many ways sets the tone for how the rest of the financial world sees the problem. With funding that tops \$43 billion annually, 9000 staff across

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<sup>3</sup> IBRD is how the World Bank was first known, when created, as the International Bank for Reconstruction and Development

the world and 100 offices, it commands attention as a multilateral organisation that matters. (Transparency International, 2012)”

Regarding corruption, former WB president Paul Wolfowitz once addressed it as one of the major step backs to development in developing and poor countries (McMahon, 2006).

Twenty years ago, the World Bank took up the fight against corruption as an integral part of reducing poverty, hunger, and disease. The decision was groundbreaking then and remains valid today. Corruption diverts resources from the poor to the rich, leads to a culture of bribes, and distorts public expenditures, deterring foreign investors and hampering economic growth. But, in some ways, corruption is only a symptom. Anti-corruption must be paired with efforts to enable governments to govern openly and fairly, to provide services and security to their citizens, and create an environment that fosters jobs and economic growth (Indrawati, 2016).

The Bank understands that corruption is a broad and complex term, but decided to adopt a straightforward definition to it: **the abuse of public office for private gain** (The World Bank, 1997, p. 8).

It points that corruption has contextual causes “rooted in a country’s policies, bureaucratic traditions, political development, and social history. Still, corruption tends to flourish when institutions are weak and government policies generate economic rents. (The World Bank, 1997, p. 12)”. WB’s experience show that corrupt practices affect macroeconomic stability, foreign direct investment, small entrepreneurs, the environment, and, certainly, the poor.

According to McMahon (2006), and as mentioned previously, one line of action taken by WB was to ban corrupt companies and contractors from its projects. Another is to make investigations on public officials, to make sure that money was spent in a proper way. This is considered one difficulty for Banks to address corruption, since the staff shall not intervene in the political affairs of clients, according to the IBRD Articles of Agreement. This matter created institutional resistance, since "taking on corruption was going beyond the sort of mandate. It was

seen by some bank officials as overstepping its boundaries and trying to meddle in the internal affairs of client states." (McMahon, 2006).

On the publication *Helping Countries Combat Corruption: The Role of the World Bank* (1997), WB claims that the Article of Agreement authorizes the Bank to address corruption, within certain limits.

Thus corruption can be addressed by Bank staff as an economic concern within the framework already approved by the Board for governance issues. This framework provides scope for the Bank to help countries by advising on economic policy reform and strengthening institutional capacity. **However, the Bank's mandate does not extend to the political aspects of controlling corruption.** And though the engagement of civil society is crucial for the long-run control of corruption, there are obvious limits on the extent to which the Bank, as a lender to governments, can directly support civil society's efforts to control corruption (The World Bank, 1997, p. 25).

Therefore, there are three lines of actions, within the Bank's mandate, that it can take:

- WB's fiduciary responsibility: "The Bank has long recognized its fiduciary responsibility to ensure that fraud and corruption are minimized in the projects it finances. (...) The emphasis on controlling fraud and corruption within Bank-financed projects will continue to be a central part of the Bank's strategy (The World Bank, 1997, p. 25)"
- Helping countries combat corruption: the most important way WB can help its Borrowing Member Countries (BMC) is to help design and implement government programs. It can be done by providing help in economic policy reform and institutional strengthening. But the success would all depend on how much of a priority those actions are taken by the country themselves. (The World Bank, 1997).
- Contributing to international efforts: "Finally, a central part of the Bank's strategy involves lending its voice and support to international efforts to control corruption. Corruption has important international dimensions, as many bribes flow across international boundaries. (The World Bank, 1997, p. 27)"

**Helping countries combat corruption** is the action that interests this thesis, and WB says that since governments still play an active role in the economy, some tools can be used to help that effort, including: deregulation and the expansion of markets; policy advice when government continues to play a role - privatization, tax reform, public expenditure reduction. It can also act on helping countries to strengthen institutions, on public management reforms, legal and judicial reform, civil society and the media (The World Bank, 1997).

Another important line of action against corruption is the Doing Business initiative, in which the investment climate in countries is investigated and presented, which includes the problem of corruption.

Even though there is criticism on how Banks are limited in addressing corruption, the WB is a major player, the biggest of the MDBs and its actions are usually looked after and followed by other institutions.

### **2.3. Transparency International**

Transparency International (TI) was founded in 1993, in Germany, and is one of the most important Non-Governmental Organizations (NGOs) in the world. It addresses topics on fighting corruption worldwide, looking for loopholes in which it may occur, and conceptualizes corruption as “the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs (Transparency International, 2016)”. Corruption has serious impacts on societies, as the populations get less trustful on their government and other institutions. It can cost them their freedom, money and even lives (Transparency International, 2016).

The vision of the organization is “a world where governments, the armed forces, and arms transfers are transparent, accountable, and free from corruption (Transparency International,

2016)”. Its mission is “to stop corruption and promote transparency, accountability and integrity at all levels and across all sectors of society. [The] Core Values are: transparency, accountability, integrity, solidarity, courage, justice and democracy (Transparency International, 2016)”.

Wang and Rosenau (2001) states that although corruption has only increased since the creation of TI, the organization can be understood as an important agent of change, an intervening variable in the fight on corruption, with its focus on fostering transparency and accountability on governments operations (Wang & James, 2001).

One of its most important and visible product is the Corruption Perceptions Index (CPI), released annually since 1995. The organization says that “each year we score countries on how corrupt their public sectors are seen to be. Our Corruption Perceptions Index sends a powerful message and governments have been forced to take notice and act. (Transparency International, 2016)”.

CPI can be understood as a *politics of shame*, since its publication “generates a great deal of media coverage, which brings public attention to the issue of corruption, as well as to TI itself. Governments around the world are sensitive to their standing on the CPI. Understandably, governments of countries that are ranked low (meaning perceived to be corrupt) are critical of TI. (Wang & James, 2001, p. 35)”

## **2.4 The United Nations Office on Drugs and Crime**

In 1997, the United Nations Office on Drugs and Crime (UNODC) was first established as a merger between the United Nations Drug Control Programme and the Centre for International Crime Prevention (United Nations Office on Drugs and Crime, 2017). It is now a very important institution to help access anti-corruption practices around the world.



Although mostly associated with the fight against illicit drugs, terrorism and international crimes, the organization has a broad range of work, going through: corruption; crime prevention and criminal justice; drug prevention, treatment and care; drug trafficking; firearms; fraudulent medicines; HIV and AIDS; Human Trafficking and migrant smuggling; money-laundering; organized crime; maritime crime and piracy; terrorism prevention; and, wildlife and forest crime.

UNODC is the organization responsible on giving technical support on the implementation of the **United Nations Convention Against Corruption** (UNCAC, or “The Convention”), “the only legally binding universal anti-corruption instrument. The Convention's far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem (UNODC, 2017)”. As of April, of 2017, it had 181 Parties and 140 Signatories.

The Convention covers five main topics: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange (United Nations Office on Drugs and Crime, 2017).

For *preventive measures*, UNCAC has one chapter to address the public and private sectors on the necessity of creating anti-corruption bodies; that public policies must be subject to safeguards; that transparency and accountability shall be addressed in issues of public finance, on areas of the judicial and procurement systems; that non-governmental and civil society need to be engaged in raising public awareness, among others.

On *criminalization and law enforcement*, the Convention requires that countries create laws, if they haven't by the time on adhering it, that would establish offences, criminalize all sorts of corruption, including obstructing justice, money-laundering.

About *International Cooperation*, UNCAC also binds countries to make mutual legal assistance in transferring knowledge and evidence that can be used in criminal cases, to cooperate on extradite offenders.

The *Asset Recovery* part, countries agreed in this topic which is particularly sensitive to developing countries, “where high-level corruption has plundered the national wealth, and where resources are badly needed for reconstruction and the rehabilitation of societies under new governments. (United Nations Office on Drugs and Crime, 2017)”

Other international institutions play important role in the fight against corruption, including the Organization of American States (OAS) and other Multilateral Development Banks, which were previously mentioned.

The Inter-American Corruption Convention was approved in 1996 by the Organization of American States (1996). This document represents a significant advance in the development of international laws to prevent and punish corruption. Among the preventive measures, the Convention contemplates the development of standards of conduct for public officials, mechanisms to enforce these standards, training of government personnel, systems for monitoring the income and wealth of public officials, systems to assure the transparency of government hiring and procurement, systems for protecting whistle-blowers, and the elimination of special tax treatment for corporations that violate anticorruption laws (Husted, 2002).

Under space and time constraints, the present thesis will narrow the efforts into the ones listed above and the Inter-American Development Bank, that will be debated in the next chapter. But first, some considerations on corruption in Latin America and the Caribbean will be addressed below.

## **2.5 Corruption and Latin America and the Caribbean**

Latin American countries have long suffered from corruption practices and they have many challenges to face to diminish corruptive practice as much as possible. “Recent history in Latin America illustrates both the extent of corruption at the national level and the difficulties of combating it. Since the early 1990s, nine Latin American presidents or former presidents have

faced judicial proceedings or have been dismissed on corruption charges (Canache & Allison, 2005, p. 94)”.

Efforts have been made in the area, by creating independent oversight institutions, strengthening judicial systems, creating laws on access to information, and participating in international treaties and conventions (Inter-American Development Bank, 2009). But the challenges are still enormous. According to IDB:

The region still faces significant challenges in fighting corruption. According to commonly used corruption indicators, the region presents levels of corruption that exceed the global average. In fact, only three Latin American countries (Chile, Uruguay, and Costa Rica) and two Caribbean countries (Barbados and Bahamas) are above the global average for 2007 shown in the World Bank Anticorruption Index. The indicators further suggest a negative trend since 2000 due to a decline in the ratings for around 60% of the countries. Lastly, according to main opinion and perception surveys, corruption is a recurring concern for both the private sector and civil society (Inter-American Development Bank, 2009, p. 3).

TI addresses that corruption is a part of citizens of LAC every day's life, with bribery's, political influence in justice systems, and weak institutions. For instance, *elections* are another area to be looked after, especially over the fact that most countries are currently under democratic systems. Therefore, attention should be made to ensure their quality (Transparency International, 2012). The most current CPI, from 2016, stated:

The average score on the 2016 Corruption Perceptions Index was 44 out of 100 for the Americas. Anything below 50 indicates governments are failing to tackle corruption. In many parts of the region, impunity continues to be a major problem. Even in countries where cases of large-scale corruption are being tackled, the risk remains that this is the result of the efforts of a small group of brave individuals rather than a long-term plan (Ebrard, 2017).

## CORRUPTION PERCEPTIONS INDEX 2016

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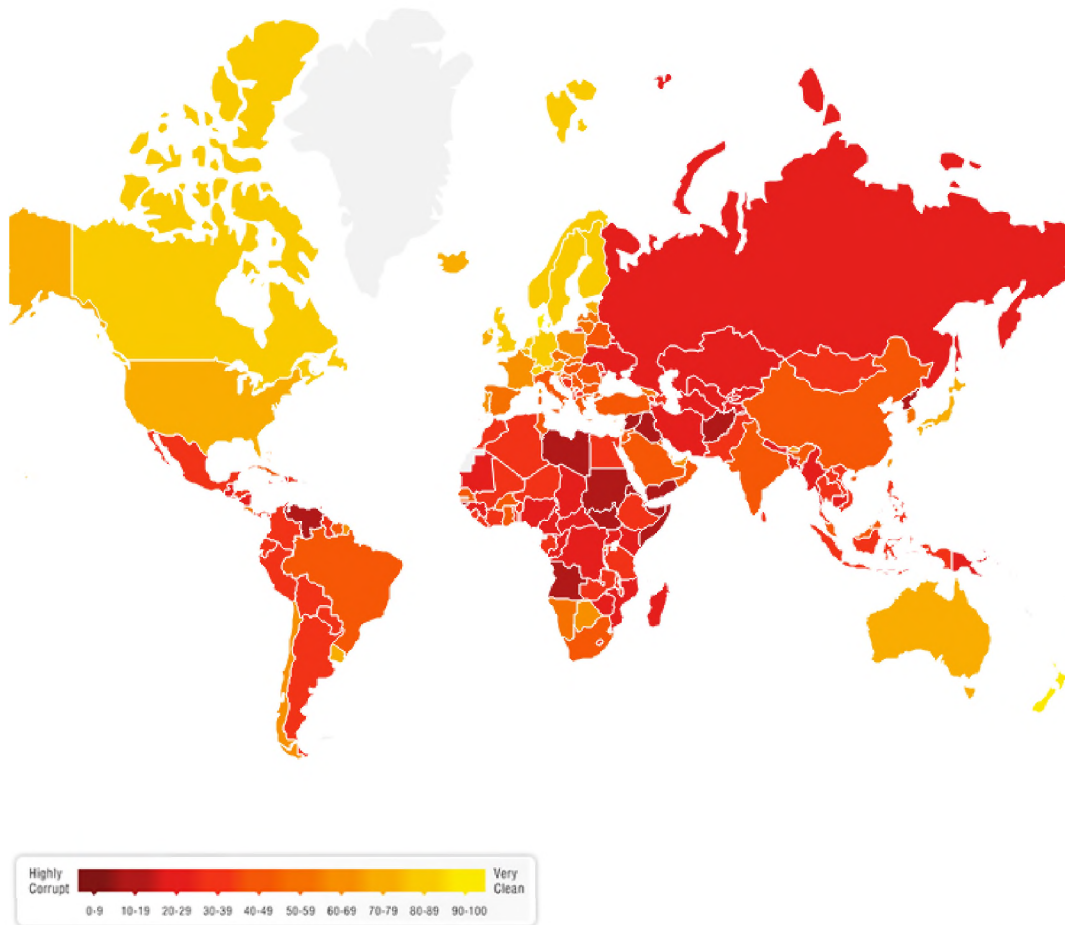


Figure 1: Corruption Perceptions Index 2016. Source: Transparency International. Available at: [www.transparency.org/cpi2016](http://www.transparency.org/cpi2016)

Many developments still need to be taken for corruption to stop been a massive burden on LAC citizens. The next chapter will address the role that the Inter-American Development Bank can take, as a significant player in the region, to help achieving this goal.

### **3. The Inter-American Development Bank and its Anti-Corruption Practices**

As questioned before, why would a Development Bank care about corruption? What is possible for it to do to improve anti-corruption practices and improve transparency of its country members? As seen on **Chapter 02**, international organizations have straight forward interests in adopting anti-corruption policies and strategies.

This thesis will analyze the Inter-American Development Bank (IDB, or “The Bank”) role’s in this fight, having Latin America and the Caribbean (LAC) as its region of operation. Below is how the Bank understands how corruption may affect development.

Corruption affects both the public and the private sector, distorting economic realities and creating perverse incentives that impact all levels of society. It is a threat to democratic institutions, serves as a detriment to the economic and social development of national economies and, if condoned and permitted to flourish, can seriously undermine the credibility of the state’s institutions and structures. Corruption is generally understood to encompass acts performed by officials who use their positions wrongfully, or are requested to do so by others, to obtain some benefit for themselves or for others. Corrupt activities include, inter alia, the solicitation, payment or receipt of bribes, gratuities or kickbacks, extortion, improper use of information or property and peddling of influence. Fraud is generally understood to consist of any actions or omissions intended to misrepresent the truth so as to induce others to act in reliance thereof, with the purpose of obtaining some unjust advantage or causing damage to others (Inter-American Development Bank, 2001, p. 1).

The current chapter will present a short view on the Bank’s history and its importance for LAC and an overview of the most important documents that underlines how anti-corruption and improving transparency’s policies are taken by the Bank.

#### **3.1 The Inter-American Development Bank: A Brief History**

Established in 1959, the Inter-American Development Bank (IDB) is one of the most important Multilateral Development Banks in the world, the oldest of the regional ones, and it is Latin America’s “leading development institution today (Tussie, 1995, p. 1)”. Currently, it has

48 member countries which are represented by the Board of Governors, and 26 of them are borrowing countries from LAC<sup>4</sup> (Inter-American Development Bank, 2017, p. 3).

The idea of a development institution for Latin America was first floated during the earliest efforts to create an inter-American system, at the First Pan-American Conference in 1890. It would take nearly seven decades for the IDB to become a reality, under an initiative proposed by President Juscelino Kubitschek of Brazil. (Inter-American Development Bank, 2017)

It is divided in four sectors group: Infrastructure & Environment<sup>5</sup>; Institutional Capacity and Finance<sup>6</sup>; Integration & Trade<sup>7</sup>; Social Sector<sup>8</sup> (Inter-American Development Bank, 2017, p. 6). The perception by the time it was created was to have a regional Bank in which the control was in majority with the Borrowing Member Countries (BMC). This would differ it from the view perceived with the Bretton Woods institutions (IMF and WB), in which the industrialized countries would held larger voting power (Tussie, 1995).

The Bank thus established for itself a reputation as the ‘water and sanitation bank’, because it was the major provider of external funding for this sector. It was also known as the ‘university bank’ because of its loans and assistance to institutions of higher learning and the ‘integration bank’ because of its support for regional economic integration. These indicate the diversified activities that have characterized its mandate and its functions (Tussie, 1995, p. 3).

Since its establishment through the following decades, the Bank faced many challenges, from the military governments in the region in the 60’s, 70’s and 80’s, the oil shocks in the 70’s, the presidency of Richard Nixon in 1969, that made USA’s foreign policy more global and less focused in the America’s<sup>9</sup>. Those events made the Bank’s influence in the region smaller, but

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<sup>4</sup> Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

<sup>5</sup> This sector group is divided in the following sectors: Agriculture and Rural Development; Energy; Environment and Natural Disasters; Sustainable Tourism; Transport; Water and Sanitation; Urban Development and Housing.

<sup>6</sup> This sector group is divided in the following sectors: Financial Markets; Private Firms and SME Development; Reform/Modernization of the State; Science and Technology.

<sup>7</sup> This sector group is divided in the following sector: Trade.

<sup>8</sup> This sector group is divided in the following sectors: Education; Health; Social Investment.

<sup>9</sup> USA is a very important donor to the Bank.

still having maintained relevance in areas of energy and sanitation, and remained also important for the smaller economies (Tussie, 1995).

The 80's represented a particular difficult time for the Bank, when LAC suffered one of its most severe crisis, having that time called the "lost decade". Interest rates escalated and the countries' external debt were three times higher than the values of exported products and goods. "The debt crisis also marked a downturn for the Bank. The IDB was not able to move rapidly to counteract the drying up of funds. As the focus changed from economic development to financial survival, the Bank lost its niche. Its very existence was questioned (Tussie, 1995, p. 4)."

According to Tussie (1995), the 90's presented a time when capital inflows were stimulated by fiscal and trade policy reform and tighter monetary reforms, and the Bank tried to perform a compensatory role that would struggle with market failures that would jeopardize development.

The individuality of the IDB has stemmed more from its corporate culture and its small country focus than from sectoral differentiation or specific type of loans. One of the most noticeable trends in the Bank's lending program has been the steady concentration of concessional funding (from the Fund of Special Operations) among the dozen poorest and smallest countries in the region (Tussie, 1995, p. 2).

In the 90's, most countries in the region had returned to democracy and the Bank improved its role as an economic stimulator.

In the last few decades the Bank has supported the countries of the region, through a considerable quantity of financial and technical assistance operations, in the process of economic reforms oriented towards economic stabilization, consolidating the market economy, increasing trade openness, eliminating subsidies that distort competition and efficiency, and privatizing productive activities and service provision. (Inter-American Development Bank, 2003, p. 3)

Another important consideration is that the profile of the BMC varies profoundly. Some have stronger institutions and wider sources of funds. In those cases, the Bank acts more as a financial intermediary (as in the case of Mexico and Brazil). In the cases of the smaller countries, those need to rely more on Official Development Assistance (ODA), and then, the Bank operates more

as a guide to help designing public policies and offering technical assistance. “When big countries like Mexico or Brazil shape up economically, they receive private investment. Countries like Bolivia need the IDB to be a catalytic element by lending directly to the private sector with government guarantees. For example, Bolivia has had massive gas export projects to Brazil and Chile that required IDB involvement (Tussie, 1995, p. 8).”

Scheman (1997) claims that under the configuration of the 90's, the role that the Bank had to assume was involved by the following lines of action: economic growth; the consolidation of economic and social reforms; infrastructure; human development; modernization of the state; increase savings; private sector; and, management skills (Scheman, 1997).

### **3.2 The Bank's Anti-Corruption Policies**

The fight against corruption is understood to be in the core of the Bank's mission: “The Agreement Establishing the Inter-American Development Bank specifies the Bank's mission to further the economic and social development of its borrowing member countries. Corruption, in all of its different forms, undermines such development and diminishes the support the Bank can provide in its activities in the region (Inter-American Development Bank, 2001, p. 2).”

Besides, IDB's website, on the Transparency and Anticorruption section, addresses the vision and mission it has on this particular topic. The mission is “we accompany the LAC countries in their efforts to institutionalize transparency, facilitate accountability and consolidate mechanisms for preventing and controlling corruption by building capacity, generating and disseminating relevant knowledge, and offering technical and financial assistance (Inter-American Development Bank, 2017)”. The vision is to “consolidate a working area of excellence that will position the IDB as a relevant partner in the region and in the international community as a



whole in transparency, accountability and anti-corruption policies. (Inter-American Development Bank, 2017).”

LAC’s countries are often related to low levels on confidence in the state institutions. The Bank shows that the control on corruption in the region is weaker than others with similar levels of economic development. (Inter-American Development Bank, 2012).

Corruption weakens economic and social development, as well as the credibility and legitimacy of democratic governance. Recognizing this reality and its costs to the development agenda, the IDB defines the promotion of institutions that view transparency and accountability as useful tools to prevent and control corruption, and that improve quality and efficiency in the provision of public services, as a sector priority (Inter-American Development Bank, 2012, p. 4).

Therefore, it acknowledges that one of its main functions to improve transparency and fight corruption is providing to its BMC its experience and knowledge in the region; the access to a large network of experts, not only inside, but also from outside of LAC; the financial capacity it has in providing more than US\$800 million in loans and US\$70 million in Technical Assistance; the fact that it can provide multidisciplinary action to prevent and control corruption and a vigorous monitoring and evaluating system (Inter-American Development Bank, 2012).

This can be done through investment and policy loans; technical assistance grants; technical advisory services; opportunity for regional dialogues and strategic alliances with international and regional partners (Inter-American Development Bank, 2001).

In the “*Strengthening Transparency and Accountability for Improved Governance*” report, the Bank lists some of the interventions that can be made in this area: targeted transparency; access to information, and open government, including the use of technological innovation as a tool to maximize this agenda; monitoring of government entities and transactions, including legislative oversight; policies, strategies, and action plans as part of international anticorruption and open government agreements; civil society participation in accountability; analysis and design of methodologies (Inter-American Development Bank, 2012, p. 8).

The Bank has some key documents regarding its policies to fight corruption and improve transparency, listed on its website<sup>10</sup>.

- *Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank*, from 2001;
- *Modernization of the State Strategy*, from 2003.
- *Action Plan to Support Countries' Efforts to Combat Corruption and Foster Transparency (PAACT)*, from 2009;
- *Institutions for Growth and Social Welfare*, from 2010;

Those documents are going to be further analyzed below, chronologically.

### **3.2.1 Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank**

Citizens are becoming less and less tolerant to corrupt behaviors and vocalizing more the threats to their countries. Approved in 2001, the *Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank* underlines how the Bank should act to prevent and fight corruption, addressing three areas of action:

- “a) Ensuring that Bank staff act in accordance with the highest levels of integrity and that the institution’s internal policies and procedures are committed to this goal;
- b) Ensuring that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment; and
- c) Supporting programs that will help the borrowing member countries of the Bank strengthen good governance, enforce the rule of law and combat corruption (Inter-American Development Bank, 2001, p. 3)”

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<sup>10</sup> See <http://www.iadb.org/en/topics/transparency/support-for-countries/policies-and-strategies,1179.html>

The first two points are important, since they underline how the Bank should proceed to avoid corruption inside of it and to ensure that the contracts signed are not with corrupt companies and not under corrupt procurements. For this thesis, the third (letter “c”) item is the most relevant one: how can the Bank support its BMC to fight corruption.

IDB operates in a decentralized way, in national and local level of governments. This Strategy addresses that whenever is noticed that one action or project may not be achieved because of corruption; specific components must be incorporated to the project to avoid that. Besides, the Bank must operate not only with the public sector, but also with civil society and the private sector.

The private sector and civil society also contribute to shape government action and public servants’ behavior. Bribery is a crime because it directs government action towards private individual gain rather than towards the public good. The private sector and civil society can direct their relationship with the public sector in ways that enhance the integrity, efficiency and quality of public action. (Inter-American Development Bank, 2001, p. 13)

Therefore, it establishes the following activities to be undertaken that would be in accordance to the strategy. The Bank must act together with the private sector and civil society to shape public servant’s behavior and government actions. “The private sector and civil society can direct their relationship with the public sector in ways that enhance the integrity, efficiency and quality of public action (Inter-American Development Bank, 2001, p. 13)”.

Continue programs designed to support the modernization of the state, including justice systems, good governance, and increased competitiveness and to strengthen civil society. Expand programs into areas such as civil service reform, support of corporate governance structures and upgrading of accounting and auditing standards. The need to support such activities has been recently emphasized in the discussion of the institutions for pillars of activities and the review of the modernization of the state sector policy (Inter-American Development Bank, 2001, p. 3).

The document puts the Bank available so that its BMC can reach out and ask for support to address corruption: in the public sector, it can be done by a decentralized action on governments (national, subnational and local levels), helping with privatization processes and social programs.

To modernize the state, the Bank may help addressing a comprehensive civil service reform that could be done by the downsizing of government agencies. The document addresses that was still pending in many countries of the region.

As an Annex to the document, the Bank presented “*Activities to be undertaken in Accordance with Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank*”. They are:

- Ensuring Integrity within the Bank<sup>11</sup>, by: Reviewing the Bank’s Code of Ethics; Staff awareness program on Ethics Code; Transparency in recruitment of staff and consultants; Review of current policies and procedures or Bank internal procurement. Those actions had estimated time of completion between April 30 and August 31 of 2001.
- Ensuring that Activities Financed by the Bank Are Free of Corruption<sup>12</sup>, by: Revision of Bank’s Information Disclosure Policy; Inclusion in the country papers of (a) section dealing with governance and (b) issues of corruption; Implementation of fiduciary assessments capability; Review of Bank’s procurement guidelines so as to ensure effective sanctions list for firms found to have engaged in corrupt or fraudulent behavior; Specific training for relevant personnel in detecting fraud and corruption during project execution. Only actions three and four have estimated times of completion: April 30 and May 31, respectively.

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<sup>11</sup> Those actions are listed on pages 1 and 2 of the annex.

<sup>12</sup> Those actions are listed on pages 2 and 3 of the annex.

- Supporting Countries to Combat Corruption<sup>13</sup>, by: Continue programs designed to support modernization of the state; Emphasize increase support for national anti-money laundering activities; Emphasize the need to incorporate, where relevant, specific anti-corruption components in Bank projects or programs. The second and third actions were expected to have issuance of notice by the end of January and March, respectively.

One important consideration to be done is that despite of being a very significant document, the *Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank* has very broad goals, in which only very few activities have an end-state for themselves.

### **3.2.2 Modernization of the State Strategy**

Scheman (1997) stated that the Modernization of the State is one of IDB's most ambitious programs.

It requires nothing less than encouraging and helping the state to refocus its institutions across the board: to decentralize, to strengthen local and municipal government, to advance the judicial system, to strengthen civil society by opening governmental processes to enable private citizens to assume more responsibility. No small order. It requires restructuring institutions and patterns that have existed for centuries. Training and preparing the local citizenry to broaden their role is vital, or the efforts at decentralization will only move inefficiency and corruption to another level. Crucial to this transformation is the role of the non-governmental organizations (NGOs), who bear the same relationship to the social sectors that private enterprise does to the productive sectors. They provide the same energy, motivation, and talent for improved delivery of services in education and health that private initiative provides to economic activity. Indeed, they form the private sector of the social sector. While the influence of the Bank is limited in this area, confined primarily to insisting that part of its loans be administered through NGOs, the Bank promotes accountability and participation in decision-making by those people who will be affected by its projects; the Bank also assumes a lively role in promoting an active public policy dialogue throughout the region on the underlying issues of reform, transparency, and democratic development (Scheman, 1997, p. 93).

In 2003, the Modernization of the State Strategy was approved, with the goal of presenting a “comprehensive agenda for the Bank to support reforms in the areas of democratic systems; rule

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<sup>13</sup> Those actions are listed on page 3 of the annex

of law and justice reform; state, market, and society; and public management with the goal of addressing transversal issues including corruption (Inter-American Development Bank, 2017)”.

One significant concept addressed there by the Bank is *Governance*:

Governance is democratic when a series of requirements are met in respect to how authority should be exercised and under what socioeconomic conditions: first, the requirement of representativeness that legitimizes public authority through free elections; second, the existence of mechanisms for the effective constraint and division of power, for ensuring the accountability of public officials to citizens and respect for citizen rights and liberties; third, controls on arbitrariness so that authority is exercised in a manner consistent with the law and the constitution, with effectiveness and efficiency in the assignment of resources to social needs and with transparency and integrity in the behavior of public officials; and finally, democratic governance requires conditions in which the enforcement of the principles of solidarity and subsidiarity permit a consensual and effective relation between different social actors in a context of social cohesion (Inter-American Development Bank, 2003, p. 1).

The diagnosis ran by IDB proved the deficient relationship, in LAC, between states and the market, and the state and citizens, which jeopardizes development in the region. “Nevertheless, from a historic perspective it is clear that there has been a democratic deficit occasionally expressed in the phenomena of authoritarianism, clientalism, corruption, and “capture” of institutions and public policies by particular interests (Inter-American Development Bank, 2003, p. 4)”.

Civil society remained relatively weak; there was still lack of judicial independence; and a difficulty to develop the process of decentralization. A major consequence of all of this is institutional weakness that leads to high levels of corruption.

The prevalence of corruption is to some degree an expression of the weakness of the rule of law as a whole, but calls attention also to the weakness of the state’s financial administration, poor policy design, inefficient and deficiently transparent expenditure systems, the persistence of antiquated and inefficient procurement and public contracting systems, non-existing or inefficient regulatory capacities, absence of clear rules in the process of privatization, and the lack of a modern merit-based civil service (Inter-American Development Bank, 2003, p. 5).

With the problem laid down, the solution for it is to strengthen the democratic system and the rule of law, to have efficient public administrations that can support competitive markets and improve the fight on poverty.

By updating the *Modernization of the State Strategy*, the Bank underlines four key areas of action that it must develop to support the country members: A) Democratic System; B) Rule of Law and Justice Reform; C) State, Market and Society; and D) Public Management. In all those areas, corruption and improving transparency are cross-cutting themes. “This strategy seeks to identify with greater clarity the link between each of the priority areas of action and the sustainable economic growth and poverty reduction strategies (Inter-American Development Bank, 2003, p. 11)”.

A. Democratic System<sup>14</sup>. The Bank aims to strengthen capacities of legislative branches by supporting programs that can modernize voting systems; to help establishing electoral institutions that are independent; strengthen citizen participation on formulation of public policies; to help national legislators to incorporate international conventions and commitments.

B. Rule of Law and Justice Reform<sup>15</sup>: IDB lists actions including the support for the independence of judiciary systems; to widen the access to those systems; to support modern systems for management and administration of judicial institutions; and, to strengthen the capacity of the judicial system in the fight against corruption. Regarding this last one, it states that the Bank could support the: “(i) creation of specific units to fight corruption in the attorney general and the public prosecutor’s offices; (ii) adoption and implementation of necessary legal instruments by the countries, including conventions and international treaties

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<sup>14</sup> Those actions are listed on pages 13 and 14.

<sup>15</sup> Those actions are listed on pages 15, 16 and 17.

for the fight against this type of crime; and (iii) the development of instruments for transparency that strengthen oversight by citizens and civil society organizations. (Inter-American Development Bank, 2003, p. 15)”

- C. State, Market and Society<sup>16</sup>. The areas of actions listed under this component are: Support the professionalism of the economic management institutions; Improve social and economic regulatory agencies<sup>17</sup>; Support institutions that design and promote active and inclusive development policies; Support the establishment of socioeconomic partnership institutions and instruments; and, Improve environmental governance.
- D. Public Management<sup>18</sup>. An accountable public sector is one important way to fight fiscal imbalances and to avoid the appropriation of interests that can come because of inefficiency, corruption and distortion of what state actions and policies are. Therefore, actions to be taken are: Develop and strengthen civil service systems according to principles of merit and flexibility; Strengthen the fiscal capacity of the state and improve the efficiency and transparency of expenditure management; Improve the capacity for the formulation and coordination of public strategies and policies; Modernize public services management systems; Use the potential of the knowledge and information technologies.

Instruments that the Bank can use to implement those actions are reviewing and addressing them at its strategies for each country; to develop national strategies for poverty reduction; to run sectoral studies that may support how the Bank formulate its strategies; to develop institutional diagnostic studies and to promote policy dialogues at the national levels.

The Bank recognize that actions under the *Modernization of State* are more complex than other projects because they frequently require activities that are not on the usual project cycles.

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<sup>16</sup> Those actions are listed on pages 17, 18 and 19.

<sup>17</sup> Under which there is the action of promoting data instruments that ensure transparency (pg. 18)

<sup>18</sup> Those actions are listed from page 19 to 22.



“The reform process tends to be complex and therefore often requires institutional, technical or management capacity for change, which is absent from the affected institutions. Consequently, it is necessary to combine traditional or sectoral loans, for example with technical cooperation programs, and draw general lessons from this critical aspect. (Inter-American Development Bank, 2003, p. 24).

Actions must be coordinated with country strategies, to foster the relation between priorities and criteria, and with the design Bank’s financial and non-financial products. Activities are to analyze country’s strategies based on governance indicators; to incorporate institutional capacity studies and provide baselines for evaluations; to elaborate technical notes to improve outcome and impact indicators; to see the possibility of developing regional policy dialogues with officials responsible for implementing modernization of the state strategy. But, most importantly, the Bank acknowledges that those actions can only be possible depending on the country’s priorities (Inter-American Development Bank, 2003).

On Annex 1 of the Strategy, the Bank presents a table showing areas of actions; how the area relates to the Sustainable Economic Growth Strategy and the Poverty Reduction Strategy. Each has its own objectives and actions.

It is important to notice that this table doesn’t present end-states, a deadline for when the activities must present some results, being them financial or not.

### **3.2.3 Action Plan to Support Countries’ Efforts to Combat Corruption and Foster Transparency (PAACT)**

*The Action Plan to Support Countries’ Efforts to Combat Corruption and Foster Transparency (PAACT)* was approved in 2009 by the Board of Directors and it aims to go deeper into the Banks strategies on fighting corruption.

It has the same logic of the *Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank*, first analyzed in this present thesis, as of fostering the Bank's staff to act in accordance to the institutions standards of integrity; to make sure that Bank's loans and grants are free of fraud and corruption; and, most important for this thesis, to help borrowing country members to fight corruption internally.

The purpose of the Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency (PAACT) is to strengthen the Bank's support for the countries of the region in the prevention and control of corruption and fostering transparency, deepening Pillar III of the Systemic Framework Against Corruption and those aspects of Pillar II related to support for the countries. The specific objectives of the PAACT are (...) at an external level, to promote and develop high value-added programs, activities, and forums for dialogue in support of the countries' efforts to combat corruption and foster transparency (Inter-American Development Bank, 2009, p. 8)

In this document, the Bank emphasizes the difficulties on this objective due to the clandestine nature of corruption and fraud, which makes **prosecution and measurement a major challenge**. Another difficulty is lack of common agreement on how corruption must be criminalized. "Corruption is a generic term that encompasses an indefinite number of behaviors, such as bribery, malfeasance, nepotism, influence peddling, State capture (...). The lack of a generally accepted definition or one that covers all possible manifestations of corruption is reflected in significant variations in how it is characterized in country legal systems (Inter-American Development Bank, 2009, p. 9)".

The diagnosis ran by the Bank showed that those are the main challenges to be faced in LAC: multiple cause of corruption, lack of uniform definition of corruption and many different manifestation; preeminence of a reactive approach/adoption of visible measures with no impact; ad hoc response to challenges; fragmentation of responsibilities; and, lack of visibility (Inter-American Development Bank, 2009, p. 28).

At an external level, the Bank should strengthen its capacity for analysis and diagnostic assessment in the areas of governance and anticorruption at the country, sector, and institutional level, in order to identify the vulnerabilities specific to each context. At the same time, it should support progress toward uniform standards for the prevention and control of corruption at the regional level initiated by the countries. Lastly, it should emphasize institutional strengthening as an entry point for the prevention and control of corruption, and should support involvement of the private sector and civil society as part of that process (Inter-American Development Bank, 2009, p. 10).

Therefore, the Bank assesses the need to develop an approach that must be contextualized to the country, sector, and institutional level; and, to foster the diagnostic capacity. It must use its comparative advantage as a regional financial institution to support countries to implement international conventions on corruption, including the CPI of Transparency International and the World Bank Governance Indicators.

Some of the actions listed that the Bank must take are “Support strengthening of institutional capacity at the subnational level” and “Support the involvement of the private sector and civil society”. Finally:

Support the generation, systematization, and dissemination of the Bank’s knowledge and work in governance, corruption, and transparency. The PAACT will promote documentation of the outcomes of programs and initiatives in this area, by monitoring projects and identifying lessons learned and promising practices. The PAACT will also promote evaluation of the impact of the programs carried out, so that successive interventions have the necessary empirical evidence, and knowledge about anticorruption tools is accumulated and disseminated (Inter-American Development Bank, 2009, p. 26).

In the time between the two documents, the Bank developed instruments to assess the country’s institutional capacities and how governments are capable of managing financial budgets and procurement processes (Inter-American Development Bank, 2009, p. 11). They are: Country Procurement Assessment Review (CPAR); Country Financial Accountability Assessment (CFAA); Country Fiduciary Assessment (CFA); Institutional Capacity Assessment System (ICAS) for project executing agencies; Red Flags in Project Procurement (RFPP) matrix;

Democratic Governance Assessment; and, Integrity Risk Review (IRR) (Inter-American Development Bank, 2009).

Therefore, the Bank lists on Annex II, the action areas (and sub-actions) to be stressed on the Plan (Inter-American Development Bank, 2009):

- Develop a contingent approach at the country, sector, and institutional level:
  - Strengthen contextualized diagnostic capacity at the country, sector and institutional level.
  - Support the use and development of a new generation of institutional indicators.
- Support initiatives to standardize the treatment of corruption:
  - Support implementation of international anticorruption convention.
  - Support and create opportunities for regional dialogue on governance and corruption.
- Prioritize a preventive support strategy:
  - Support strengthening of institutional capacity to prevent and control corruption;
  - Support the involvement of the private sector and civil society.
- Implement a systemic approach:
  - Strengthen treatment of the governance framework and corruption risks at the sector level.
  - Strengthen coherence among diagnostic assessment, programming, and project design.
  - Strengthen the prevention and control of corruption throughout the project cycle.
- Strengthen our internal capacity:
  - Institutionalize internal coordination mechanisms.
  - Strengthen the capacity of relevant units.
- Prioritize this issue in the Bank's strategic vision:

- Implement the Bank's institutional commitment to good governance and the fight against corruption.
- Support generation and dissemination of knowledge.
- Strengthen coordination with other international stakeholders.

One important distinction between this document and the previous ones is how the Bank sets a target for those actions. They must be implemented between 2009 and 2011.

### **3.2.4 Sector Strategy Institutions for Growth and Social Welfare**

The *Sector Strategy Institutions for Growth and Social Welfare* was approved in 2011, under the framework of the Bank's Ninth General Capital Increase (GCI-9) of 2010. It "highlights the need to enhance transparency and combat corruption as a transversal tool to improve the quality of institutions throughout the region<sup>19</sup>".

The GCI-9 points objectives and strategies that the Bank must follow *in the following three years*, with a focus on tackling the appointed two main challenges in the region: poverty and inequality reduction and achieving sustainable growth. The outlined five sector priorities are: "(i) social policy for equity and productivity; (ii) infrastructure for competitiveness and social welfare; (iii) institutions for growth and social welfare; (iv) competitive regional and global international integration; and (v) protection of the environment, response to climate change, promotion of renewable energy, and food security (Inter-American Development Bank, 2011, p. 1)."

Since LAC is one of the regions of the world with highest inequality, the pursue of social welfare is required and justified by the Bank, to reduce or compensate structural disparities.

While the region has made an impressive commitment to democratic forms of government, much of the institutional infrastructure of democratic governance remains weak. Citizen security and corruption are issues of national debate, judicial systems are less than fully effective in sustaining

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<sup>19</sup> <http://www.iadb.org/en/topics/transparency/support-for-countries/policies-and-strategies,1179.html>

the rule of law, legislatures lack the professional support needed to effectively interact with the executive branch on a broad range of questions, civil services are not yet fully modern meritocracies, and transparency is not always the norm in public decision making (Inter-American Development Bank, 2011, p. 4).

The countries in LAC still suffer from not having efficient delivery of public services, and the Bank understands that it needs to support national, sub-national and local governments in their effort to stabilize their economies and implement effective public policies. The Strategy, therefore, has three pillars: public sector management; revenue generation and macro-fiscal management; and strengthening the institutional capacity of sub-national and local governments (Inter-American Development Bank, 2011, p. 22).

It is stressed the need to support the development of Public Expenditure Management (PEM), through promoting principals of results based management in the cycle of public policies and the harmonization of public expenditure systems across the region.

The areas to be supported by this Strategy are: (i) strategic planning; (ii) results-based management and budgeting; (iii) public debt management; (iv) accounting and treasury management; (v) monitoring and evaluation; (vi) internal and external audit; (vii) project management and public investment; (viii) public financial management information systems; and (ix) state procurement and contracting (Inter-American Development Bank, 2011, p. 22).

Regarding the fight against corruption and fostering transparency, the Strategy states:

Corruption represents a key binding constraint for sustainable and equitable economic growth. Its adverse effects on economic development, income distribution, the legitimacy of the political system, the viability of the State, and the level of crime have been extensively documented in the last ten years. Among other data, experts have shown a strong negative correlation between corruption levels and competitiveness and have estimated a 300% economic development dividend for investing in corruption control. Transparency enables an environment of accountability and levels the playing field for private sector development, enhancing trust both in markets and institutions. In so doing, transparency helps reduce poverty by improving service delivery, strengthening government accountability, and reducing administrative costs, among other effects. Transparency also has positive impacts on business in general, including trade and strengthening the financial sector (Inter-American Development Bank, 2011, p. 28)

Countries in Latin America and the Caribbean have improved their efforts to fight corruption but the challenges are still significant. Indicators prove that the region perform below world average and the average of Middle Income Countries (Inter-American Development Bank, 2011, p. 29). In the effort to support actions in borrowing member countries, the Bank identified six issues of high importance: 1) transparency and fighting against corruption, 2) internal control systems, 3) accountability and access to information, 4) citizens' participation and petition rights, 5) media and public opinion and free speech, and 6) electoral system (Inter-American Development Bank, 2011).

This Strategy has the following components: Enhancing the Productivity and Growth of Small and Medium Enterprise; Institutions for Innovation and Technological Development; Public Sector Management and Finance; Providing Access to Financial Services to the Majority; Reducing Insecurity and Violence; **Combating Corruption and Promoting Transparency**; Registries for Social and Economic Growth; and, Enhancing institutional capacity support to other Sectors.

The document references the PAACT, at that moment in its second year of implementation. It states that actions on promoting good practices on transparency and strengthening control institutions will be deepened, while priorities included: developing transparency and anti-corruption strategic plans and policy priorities; strengthening national control systems; transparency, access to information and open government; leveraging transparency and corruption prevention measures at the sector level; and, capacity building. As stated above, this document had an end-state of three years, from 2012-2015.

### 3.3 Conclusion

As Tussie (1995) argued, Multilateral Development Banks are often questioned over how much they cost to countries, their administrative staffs. They perform this dual role of financial intermediaries and development institutions.

To give itself the challenge of fostering institutional reforms is not an easy task for the Bank, especially considering that those actions are usually of long term and the products are harder to see, for populations in general, than providing infra-structure or fostering agricultural development.

Another main challenge is to have countries accepting that they need to go to the Bank and ask for this kind of support and facing all the requirements that are usually set on them. Under the consideration that the Bank created an historical identity of having BMC as effective actors, in which consensus is constructed on having the need of reforms, helps the make to make those actions legitimate (Makino, 2014).

Two of the documents reviewed above, that define what are the IDB's challenges and priorities on fighting corruption are broad on their goals and they don't set deadlines in which goals and products are to be achieved (or doing so in some of the activities). The two newest ones set end-states that can only reaffirm the challenges of the main goal.

Still, the Bank had decided to foster this internal sector and provided considerable amounts of funding, either through Loan Operations (LO) or Technical Cooperation (TC). The next chapter will provide an overlook on some of the Bank's projects, under the Modernization of the State sector, to see how effective it has been on the fight against corruption and fostering transparency.



## **4. IDB's Projects on Fighting Corruption and Improving Transparency**

Once understood IDB's position regarding anti-corruption and transparency practices, the present thesis will focus on analyzing some of its projects.

### **4.1 Methodology**

The methodology for choosing the projects was the following.

First, they were selected on the Bank's database using the search word "Transparency"<sup>20</sup>, resulting in a total of 267 projects<sup>21</sup>.

Then, the projects approved after 2003 were kept, considering that this was the year of the Modernization of the State's strategy was approved and only the ones under the "Reform / Modernization of the State" umbrella were kept. That resulted in 145 projects, in which 107 were Technical Cooperation (TC) and 37 were Loan Operations (LO)<sup>22</sup>.

They were submitted to a random sample, in which the first 15 were selected, representing 10% of the total. Initially, four of them had to be discarded because the Bank didn't provide their documents to be analyzed having the next four chosen. Other two also had to be discarded because one also didn't have the proper documents, while the other was repeated. At the end, of the 15 selected 10 were Technical Cooperation and 5 were Loan Operations.

Later, the projects were coded and the results will be showed in the final section of this chapter, but firstly the fifteen will be presented below.

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<sup>20</sup><http://www.iadb.org/en/projects/project-details,1301.html?Country=&Sector=&Status=&query=Transparency>

<sup>21</sup> The search word "Corruption" resulted in XXX projects.

<sup>22</sup> The other was classified as "Externally Funded Contractuals"

## 4.2. The Projects

### 1. RG-M1041: Engaging Civil Society to Increase Transparency and Accountability<sup>23</sup>

2 Components			%
1	Promotion and Dissemination	\$ 34,500	2.9%
2	Regional Fund for the Promotion of Transparency	\$ 918,175	76.5%
3	Administration	\$ 161,300	13.4%
4	Evaluations	\$ 40,000	3.3%
5	Financial Audits	\$ 15,000	1.3%
6	Contingencies	\$ 31,025	2.6%
	Total	\$ 1,200,000	100%

Approved in 2006, the “Engaging Civil Society to Increase Transparency and Accountability” project is a Technical Cooperation that has the general objective of improving “market functioning by increasing transparency in the participating countries. The purpose of the program is to support targeted small grant projects of civil society organizations that are focused on increasing transparency in different public and private sector economic activities (RG-M1041, p.1)”. It is a Regional program, it embraces six countries: Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay, and the Institute for Communication and Development – ICD – is the Executing Agency, with the support of Partnership for Transparency Fund (PTF).

The TC funding is of USD 600,000 came from the Bank while the other USD 600,000 came from Country Counterpart Financing. It has two components:

- **Component 1:** Promotion and dissemination (MIF US\$ 27,600; Local Counterpart US\$ 6,900)
- **Component 2:** Regional Fund for the Promotion of Transparency – FONTRA. (MIF US\$ 366,375, Local Counterpart US\$ 551,800).

The fight against corruption is at the heart of the project.

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<sup>23</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=RG-M1041>

Corruption is a matter of great and growing global concern. From avoiding taxes and duties to seizing state assets, corruption comes in many forms, from petty to grand. It can be immensely lucrative and hugely damaging, eroding the rule of law, the legitimacy of government, property rights, and incentives to invest and accumulate (p.2)

Civil Society's participation is a key component and the understanding is that when this actor demands transparency from governments, public officials become more accountable for their actions. In this manner, the project aims to support actions that are focused on reducing and eliminating corruptive practices. It is market oriented and it claims that companies have the interest in eliminating corruption so they can play in the market in a more competitive way.

For the *Regional Fund for the Promotion of Transparency* Component, it was expected to have 30 targeted grants supported through the program and at least 25 of them reaching a satisfactory classification in the monitoring system. It was expected that FOTRA would be recognized as an effective tool to fight corruption.

For the *Promotion and Dissemination Component*, programs launching events and regional conferences are expected, along with establishment of networks, websites and e-bulletins. Those will be verified by registry of participants, evaluations and monitoring systems and final reports.

## 2. BO-L1047: Transparency and Anticorruption Program<sup>24</sup>

3 Components			%
1	Integrity and reduction of impunity for acts of corruption	\$ 1,750,944	26.9%
2	Social oversight of public administration	\$ 1,280,539	19.7%
3	Promotion of a culture of ethics and integrity	\$ 1,882,801	29.0%
4	Program Administration	\$ 1,339,645	20.6%
5	Audit and Evaluation Expenses	\$ 152,000	2.3%
6	Contingencies	\$ 94,071	1.4%
	Total	\$ 6,500,000	100%

<sup>24</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=BO-L1047>

Approved in 2009, this Loan Operation between the Bank and the government of Bolivia is fully oriented to improve transparency in public policies. It has four main focuses: citizen participation, strengthening the transparency for public management and the right to access the information, measures to eradicate corruption, and mechanism to ensure institutional strengthening and coordination.

In the context understanding, some figures prove a very concerning position for Bolivia, regarding transparency and corruption. It is shown that “Transparency International ranked Bolivia 102<sup>nd</sup> out of 180 countries in its 2008 index, with a score of 3 out of 10 (BO-L1047, p.1)”.

A recent survey (RAB 2005) on smaller-scale corruption (e.g. bribes or graft paid by Bolivians to obtain everyday public services) estimates that Bolivian households pay bribes of US\$155 annually. The same study also estimates that for households with monthly incomes of up to 500 bolivianos, bribes represent 16.9% of their total annual income, versus 1.3% for households with monthly incomes above 5,000 bolivianos, which denotes the regressive nature of corruption (BO-L1047, p.1)

This LO aims to improve the Executive Branch actions to fight corruption and improve transparency. It has three components:

- **Component 1:** Integrity and reduction of impunity for acts of corruption. “The objective of this component is to facilitate the detection of acts of corruption, reduce impunity, and help the State process those cases quickly and effectively, at the same time contributing to the recovery of assets and debts. (BO-L1047, p.4)”;
- **Component 2:** Social oversight of public administration. “The objective of this component is to facilitate detection and prevent acts of corruption, reduce impunity, and reduce the damage caused by corruption in some selected public services by promoting social oversight of public administration and access to information (BO-L1047, p.6)”.

- **Component 3:** Promotion of a culture of ethics and integrity. “The objective of this component is to fight corruption through actions geared toward increasing the social sanction and individual rejection of acts of corruption, and toward increasing the State’s capacity to understand this complex phenomenon in the interest of designing or modifying policies and programs on the basis of empirical evidence (BO-L1047, p.8).”

The Plurinational State of Bolivia will be the borrower and the Ministry of Institutional Transparency and Anticorruption (MTILCC) will be the executing agency. “The program is expected to have strong social returns. The program’s estimated “internal rate of return” (IRR) would be above 31%, with a net present value (NPV) of US\$4.3 million, based on a conservative scenario, and an expected NPV of over US\$9 million with the sensitivity analysis (BO-L1047, p.10)”

### 3. JA-T1067: Support for the Implementation of the Fiscal Responsibility Framework<sup>25</sup>

3 Components			%
1	Capacity Building for the Minister of Finance (MOF) and the Public Administration and Appropriation Committee (PAAC)	\$ 90,000	28.6%
2	Specialized advice for the design and implementation of the Central Treasury Management Systems/Treasury Single Account (CTMS/TSA).	\$ 175,000	55.6%
3	Specialized training to the staff of the Auditor General’s Department (AGD)	\$ 50,000	15.9%
	Total	\$ 315,000	100%

This Technical Cooperation was approved in 2011 with the goal of improving Jamaica’s fiscal policies; to have a better transparency on reporting requirements and more accountability on the management of public funds. The Bank was requested, by the Government of Jamaica, through its Planning Institute of Jamaica (PIOJ), to be the Executing Agency of the TC, because of the independence it has from the country’s control institutions. The justification comes from

<sup>25</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=JA-T1067>



the fact that Jamaica has a high public debt that jeopardizes stability and possibility of growth. Therefore, it has three components:

- **Component 1:** Capacity Building for the Minister of Finance (MOF) and the Public Administration and Appropriation Committee (PAAC).
- **Component 2:** Specialized advice for the design and implementation of the Central Treasury Management Systems/Treasury Single Account (CTMS/TSA).
- **Component 3:** Specialized training to the staff of the Auditor General's Department (AGD).

The Expected Outputs are: 1. CTMS designed; 2. Fiscal Policy Paper prepared; 3. AGD and PAAC reports prepared as mandated by the FRF Act. The Expected Outcomes are: 1. Improved Fiscal Policy; 2. Enhanced oversight of fiscal accounts; 3. Better management and control of government cash.

4. CO-T1389: Institutional Strengthening of the Contralor General of the Republic to improve fiscal control<sup>26</sup>

3 Components <sup>27</sup>			%
1	Design of the Observatory of Public Expenditure	\$ 100,000	33.3%
2	Strengthening of Risk Management on fiscal control actions	\$ 110,000	36.7%
3	Exchange of knowledge, international standards and good practices	\$ 90,000	30.0%
	Total	\$ 300,000	100%

Approved in 2015, this Technical Cooperation aims to support a Loan Operation<sup>28</sup> between the Bank and the Contralor General of the Republic of Colombia. The TC has the purpose of supporting the “establishment of the necessary conditions and finance key outputs for the start of

<sup>26</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=CO-T1389>

<sup>27</sup> Documents available are only in Spanish. Translation made by the author.

<sup>28</sup> CO-L1154

activities”<sup>29</sup> of the Loan. The Bank is the Executing Agency of the TC, that has the goal of improving the management and transparency of public expenditure by strengthening fiscal control. To do so, it would finance three components:

- **Component 1:** Design of the Observatory of Public Expenditure
- **Component 2:** Strengthening of Risk Management on fiscal control actions
- **Component 3:** Exchange of knowledge, international standards and good practices

Although presented at the Bank’s website as being at the Implementation level and having USD 256,658 disbursed up to date, the only documentation available is the synthesis of the TC, that doesn’t have a Logical Framework.

Still, the activities for the execution are listed as the implementation of the recommendation mark e plan of action defined at the Results Report to the control agencies; feasibility study for the creation of an institution for the professionalization of fiscal control in the country; the development of a workshop for the capacitation of experts on international standards and good practices on fiscal control. The absence of a frameworks makes it difficult to analyze what they were aiming and the feasibility.

#### 5. BR-L1026: Fiscal Management in the State of Bahia<sup>30</sup>

4 components			%
1	Strengthen financial management and develop mechanisms to monitor and measure the quality of public spending	\$ 5,701,736	24%
2	Modernize tax administration organizational structures and processes	\$ 6,835,666	28%
3	Strengthen mechanisms for administrative transparency and communication with the public	\$ 1,018,598	4%
4	Modernize personnel management and technology management and introduce new electronic services	\$ 9,374,000	39%
5	Project Administration	\$ 320,000	1%
6	Contingencies	\$ 750,000	3%
	Total	\$ 24,000,000	100%

<sup>29</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=CO-T1389>

<sup>30</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=BR-L1026>

This Program “To improve the efficiency and transparency of fiscal management in the state of Bahia. The purpose is to strengthen and modernize the tax and finance areas of the State of Bahia Department of Finance (BR-L1026, p. i)”. It has four components:

- **Component 1:** Strengthen financial management and develop mechanisms to monitor and measure the quality of public spending;
- **Component 2:** Modernize tax administration organizational structures and processes;
- **Component 3:** Strengthen mechanisms for administrative transparency and communication with the public;
- **Component 4:** Modernize personnel management and technology management and introduce new electronic services.

Out of the four components, only one relates directly to anti-corruption/transparency issues, which is Component 3, representing 4% of the loan budget. The objectives of this component are: (i) to strengthen Bahia state government mechanisms for administrative transparency, and (ii) to improve internal communications and communication with the public. To attain these objectives, the component will have two subcomponents: (i) administrative transparency mechanisms and (ii) improvement of taxpayer services and communications (BR-L1026, p. 15).”

As a loan that stands for fiscal management, the subcomponents for this item seeks to finance technical assistances for audit and control systems; training; reviewing services and improving communication. As expected outcomes for the component, the Bank expects to have more government audits, fewer queries and increase in satisfaction.



Transparency is also a part of Component 1, which stands for 24% of the loan composition, when one of the objectives is addressed as “(iii) improve the efficiency, transparency, and quality of public spending in the state of Bahia (BR-L1026, p. 11)”.

The program stands with the assumptions that “there is a stable economic environment in the country and in the state of Bahia (measured by the inflation index and GDP growth rate) which enables state authorities to continue to prioritize, after the program ends: (i) the modernization of public administration; and (ii) sustained increases in efficiency and transparency in the workings of government. (BR-L1026, p.1 Annex).”

At the Ban’s logical framework, Components are understood as outputs.

The Indicators for Component 3 are:

1. 48 months after the program begins, a 10% annual increase in number of government audits (baseline for 2004 = 24, in a universe of 81 auditable entities).
2. After 24 months, the Revista Tributária [Tax Journal] has been published.
3. After 24 months, the SEPAZ quality “service” model has been implemented.

The related means of verification are:

1. Annual reports on the program.
2. Annual progress reports from project managers, backed by Steering Committee minutes.

As for Component 1, the verifiable indicator for the objective of “improve the efficiency, transparency, and quality of public spending in the state of Bahia (BR-L1026, p.11)” is:

1. 24 months after the first disbursement, SEFAZ is equipped to provide pertinent information to the public on its Web site (reports on state budget execution, tax receipts, personnel expenditure, others) regarding costs of the main services and products provided by the state government.

6. CO-T1049: Strengthening "How are we doing throughout Colombia"<sup>31</sup>

3 Components <sup>32</sup>			%
1	Systemization of "How are we doing" methodology in 3 cities	\$ 13,000	19.8%
2	Strengthening replicas and adaptation of informational tools	\$ 22,500	34.4%
3	Design of Plan of Action "Red de Ciudades"	\$ 15,000	22.9%
4	Other contributions (Team, installations, Program coordinator's salary)	\$ 15,000	22.9%
	Total	\$ 65,500	100%

Approved in 2007, "How are we doing throughout Colombia" is a Technical Cooperation that aims to strengthen the social control and accountability towards local governments in Colombia. It was signed between the Bank and Fundación Corona, which is the Executing Agency of the TC. It financed three components:

- **Component 1:** Systemization of "How are we doing" methodology in 3 cities. By hiring a consultant that would (a) indicate the lessons learned from the methodology in de Medellin, Cali and Cartagena and to make an analysis on how to expand it to the entire country; (b) a systematization of accomplishments and impact indicators of the initiative; (c) a creation of tools, with standards and technical requirements, to implement the initiative in other cities.
- **Component 2:** Strengthening replicas and adaptation of informational tools. This component would finance operational plans that would be based on Bogota Cómo Vamos (BCV); would define strategies to implement BCV on the short term; to provide technological support to the operational plans for the three cities that are replicating BCV. It would support hiring consultants to adapt the informational system of "Equidad e Indicadores Sociales (EQxIS)" (developed by the Bank) to support performance indicators of BCV; to capacitate

<sup>31</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=CO-T1049>

<sup>32</sup> Documents available are only in Spanish. Translation made by the author.

government officials from the cities participating in EQxIS to be able to replicate it to other cities.

- **Component 3:** Design of Plan of Action “Red de Ciudades”. This component would hire consultant to develop a plan to implement the operational structure of the initiative; that would establish coordination mechanisms to coordinate and generate information and develop strategies for the diffusion of information and lessons learned; a feasibility study to expand the initiative nationwide; to apply mechanisms and systems of monitoring and evaluation.

Documents don’t present expected outputs and outcomes of the agreement.

#### 7. BR-L1047: Strengthening of Institutional Capacity for Regulatory Management<sup>33</sup>

4 Components			%
1	Strengthening of policy formulation and analysis capacity	\$ 765,000	13.3%
2	Better coordination and strategic alignment between sector policies and regulatory process	\$ 1,264,000	22.0%
3	Strengthening of the autonomy, transparency, and performance of regulatory agencies	\$ 1,983,000	34.5%
4	Development of societal oversight mechanisms	\$ 1,744,000	30.3%
	Total	\$ 5,756,000	100%

This Loan Operation was signed in 2006 between the Bank and the Brazil’s Office of the Presidential Chief of Staff (which is the Executing Agency), with the objective of “support the government in improving the quality of federal market regulation. (BR-L1047, p.1)” It has four components:

- **Component 1:** Strengthening of policy formulation and analysis capacity. This component aims to “strengthening of policy formulation and analysis capacity. This component seeks to strengthen ministry capacity to formulate, monitor, and evaluate public policies affecting the

<sup>33</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=BR-L1047>

sectors in which regulatory agencies operate, and to monitor and evaluate their implementation and outcomes (BR-L1047, p.1).”

- **Component 2:** Better coordination and strategic alignment between sector policies and regulatory process. “This component will promote coordination and alignment between sector public policies and regulatory processes (BR-L1047, p.2).”
- **Component 3:** Strengthening of the autonomy, transparency, and performance of regulatory agencies, “This component seeks to make federal regulatory agencies more autonomous, help them improve their performance, and promote the adoption of tools to enhance regulatory quality (BR-L1047, p.2).”
- **Component 4:** Development of societal oversight mechanisms. “This component seeks to promote mechanisms for societal oversight of regulatory activities, giving civil society organizations greater access to the regulatory process and better enabling them to monitor it. (BR-L1047, p.2).”

As expected outcome was to have the quality of sectorial regulation performed by regulatory agencies in the Federal Government improved. The Output was the Annual Physical and Financial Progress 2012, while the performance indicators were, included: capacitation of public officials; to formulate a diagnosis on process of formulation and analysis of public policies in regulated agencies; to have a risk map designed on prevention of irregularities and treatment on conflict of interest; to have campaigns developed on institutional education on regulation; workshops and others.

8. RG-T2125: Strengthening public management transparency and control in Latin America and the Caribbean (LAC)

3 Components			%
1	Assessments and modernization strategies	\$ 195,000	20.2%

2	Regulatory reforms and capacity building	\$ 615,000	63.7%
3	Policy dialogue, south-south cooperation and knowledge generation and dissemination	\$ 155,000	16.1%
	Total	\$ 965,000	100%

This Technical Cooperation is a Regional one, approved in 2006 that also has control policies as focus. The Bank is the executing agency and the beneficiaries are understood to be the entire LAC, but fundamentally the countries that would receive the TC. It has the objective of contributing to “increased transparency, public accountability and efficiency, in the management of public funds and external financing by supporting member countries, in their efforts to strengthen the national control and audit functions (RG-T2125, Procurement Plan, p.4)”. It is understood that there is an importance to strengthen internal and external controls in LAC, and audit entities.

The internal level refers to the institutionalization criteria of the effectiveness, efficiency, quality and transparency within these entities. Control agencies in LAC are making increasingly significant efforts to strengthen their institutional capacity, including the creation of strategic plans; professional training of auditors, definition of strategies and action plans, and the design and definition of key performance indicators and databases. The external level refers as to how internal and external control and audit entities add value to the overall public governance framework. Debates around this issue are becoming increasingly important in LAC countries (RG-T2125, p.2).

To do so, it has three components.

- **Component 1:** Assessments and modernization strategies. “This component is intended to gain a better understanding of the needs of control and audit entities and address these needs (RG-T2125, p.3).”
- **Component 2:** Regulatory reforms and capacity building. “This component is intended to build the capacity of control and audit entities to report on risks and highlight opportunities for improvement in the way public resources are being managed (RG-T2125, p.3).”



- **Component 3:** Policy dialogue, south-south cooperation and knowledge generation and dissemination. “The program aims to further develop the capacity of the Bank and its country members by engaging in strategic and policy dialogue amongst themselves, as well as with key international/regional partners such as INTOSAI, CAROSAI, OLACEFS, and OCCEFS (RG-T2125, p.3).”

The expected impact is to have national control and audit functions improved in LAC. Products are “Inclusion in two (2) control and audit country strategies and/or action plans to improve efficiency and transparency of control and auditing functions designed and developed”; “At least two (2) country assessments of its regulatory framework performed”; “One (1) coordinated audit report, including at least two countries (RG-T2125, Table II, p.4)”.

#### 9. PE-T1022: Strategy and Action Plan for Development Effectiveness

4 Components <sup>34</sup>			%
1	Strategy and General Plan of Action	\$ 50,000	10%
2	Budget Management by Results	\$ 150,000	30%
3	Public Investments	\$ 95,000	19%
4	Transparency and Accountability	\$ 120,000	24%
5	Management for Project Execution	\$ 60,000	12%
6	Unforeseen	\$ 25,000	5%
	Total	\$ 500,000	100%

This Technical Cooperation between the Bank and the Government of Peru seeks to “contribute to the of Results Based Management in the government to promote efficiency and efficacy of processes of decision making and transparency and efficiency of public expenditure

<sup>34</sup> Documents available are only in Spanish. Translation made by the author.

(PE-T1022,p.1)<sup>35</sup>. The Executing Agency was the Ministry of Economy and Finance and it had four components:

- **Component 1:** Strategy and General Plan of Action. Under this component, among other actions, workshops and consultancies will happen to promote RMB inside the government. Besides, a definition of a “Consensual General Plan of Action” to strengthen key areas that RMB is to be applied.
- **Component 2:** Budget Management by Results. Under this component, actions were to be taken to improve budget execution and further increment the availability and information knowledge over the performance of public administration through monitoring and evaluation of budget expenditure. It also seeks to design a system of incentives on achievements of goals and another system of monitoring and evaluation of public expenditure.
- **Component 3:** Public Investments. This component had the goal of improving capacity of analysis, prioritization, programming, executing, monitoring and evaluating public expenditure in cross-cutting activities and sectors. To create a system of ex-post evaluation of public expenditure and capacity building.
- **Component 4:** Transparency and Accountability. This component had the purpose of improving the quality and transparency of information regarding public expenditure.

Products of this TC are, amongst others: design and definition of a General Plan of Action to strengthen Results Based Management in Peru; the elaboration of a diagnosis on how public expenditure is being done in Peru; Evaluation of participatory budgeting; analysis of how incentives to accomplishments exist in Peruvian government; Design of ex-post evaluation on the government’s main sectors; a guide for impact evaluation; visits to regional governments.

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<sup>35</sup> Documents available are only in Spanish. Translation made by the author

10. CH-T1091: Shared use of Information to Improve the Fight Against Corruption in Chile<sup>36</sup>

3 Components <sup>37</sup>			%
1	Shared use on information about corruption	\$ 146,000	38.5%
2	Citizen access to information about complaints and investigations	\$ 48,000	12.7%
3	Strengthening of specialized units on fighting corruption	\$ 70,000	18.5%
4	Coordination and Program follow-up	\$ 95,000	25.1%
5	Unforeseen	\$ 5,000	1.3%
6	Final Evaluation	\$ 10,000	2.6%
7	External Audit	\$ 5,000	1.3%
	Total	\$ 379,000	100%

This Technical Cooperation between the Bank and the Government of Chile was approved in 2010 with the objective of improving “the effectiveness, opportunity and transparency of the investigation and thought of corruption in the public function, through the use of shared and transparent information about reports and investigations.”<sup>38</sup> The General Control of the Republic is the Executing Agency. It has four components:

- **Component 1:** Shared use on information about corruption. This component aims to share knowledge between institutions directly involved in the fight against corruption. It was about sharing information, data, investigations on corruption acts.
- **Component 2:** Citizen access to information about complaints and investigations. This component aims to facilitate access to citizens on corruption investigations and their ultimate results, aiming to create a more effective communication to the citizens of the fight against corruption.
- **Component 3:** Strengthening of Specialized Units on Fighting Corruption. The improvement on the communication and knowledge sharing between the institutions can improve their

<sup>36</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=CH-T1091>

<sup>37</sup> Documents available are only in Spanish. Translation made by the author.

<sup>38</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=CH-T1091>



internal management. Therefore, capacity building will be performed and the strengthening of processes, work practices and organizational structures between the institutions.

This TC doesn't present a Logical Framework.

11. BR-T1200: Support the preparation of the loan operation BR-L1223

2 Components			%
1	IT Governance Consulting	\$ 124,000	75.2%
2	Study Program and technical interchange (travel and travel expenses)	\$ 41,000	24.8%
	Total	\$ 165,000	100%

This TC is between the Bank and the Brazilian Government that came to support the Loan Operation BR-L1223, approved in 2011. “The operation will support the Comptroller General Office (CGU) and the project team in the preparation and implementation of the Program for Strengthening the Prevention and Combat to Corruption in the Brazilian public sector<sup>39</sup>”. As a TC that supports a LO, it will finance two activities:

- **Component 1:** IT Governance Consulting. The consultant was to evaluate the maturity level of Information Technology at CGU; to elaborate a diagnosis on the processes of information management; to elaborate an improvement plan on the IT governance processes inside CGU.
- **Component 2:** Study Program and technical interchange (travel and travel expenses). To elaborate an exchange program between Brazil and Canada to exchange knowledge on this field. It would involve CGU, Treasury Department of those two countries, sectorial entities, universities and NGOs.

Expected products were an evaluation, diagnosis and improvement plan of IT governance at CGU and a technical report generated by CGU with the most important lessons learned of the exchange program.

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<sup>39</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=CH-T1091>

As of expected outcomes: technical proposals and human capital developed as inputs for the preparation for the LO.

## 12. RG-X1129: Strengthening Governance in the Extractive Industries in LAC<sup>40</sup>

4 Components			%
1	Transparency and Access to Information	\$ 190,000	19.0%
2	Legal and Regulatory Reforms	\$ 190,000	19.0%
3	Capacity Building to improve the monitoring of socio-economic and environmental impacts	\$ 190,000	19.0%
4	Knowledge and Dissemination	\$ 200,000	20.0%
5	TC Project Communication Coordinator	\$ 150,000	15.0%
6	External Evaluation	\$ 30,000	3.0%
7	Contingencies	\$ 50,000	5.0%
	Total	\$ 1,000,000	100%

This is a Regional TC approved in 2011. It has the objective of contributing “to the strengthening of governance in the extractive industries (oil/gas and mining) in Latin America and the Caribbean (LAC) (RG-X1129, p.1)”. It is justified over the fact that Latin American is one of the most important source of metals in the world and has the “second largest share of the world’s oil and gas reserves (RG-X1129, p.1)”. Therefore, with its four components, the proposal is to have a package the supports the enhancing of governance in LAC’s extractive industries. The Bank is the Executing Agency.

- **Component 1:** Transparency and Access to Information. This component will finance the development of “transparency standards to be adopted by public and private companies as well as government agencies (RG-X1129, p.3)”
- **Component 2:** Legal and Regulatory Reforms. This component will finance “assistance for the review of legal codes, laws and contracts in the extractive industries. (RG-X1129, p.4)”

<sup>40</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=RG-X1129>

- **Component 3:** Capacity Building to improve the monitoring of socio-economic and environmental impacts. “This component will seek to assist government authorities (both at the federal and sub-national levels) and civil society with respect to managing the revenues from the extractive industries rents, royalties and corporate social and responsibility payments. (RG-X1129, p.4)”
- **Component 4:** Knowledge and Dissemination. “This component will provide an overview of the demand and opportunities for the Bank to address governance in the extractive industries in LAC, as well target applied research on emerging issues (RG-X1129, p.4)”

The TC worked as to provide a diagnosis/technical support for IDB projects and both public and private sector will be able to assess the TC, since it will be based on demand. The overall impact expected is to strengthen governance in extractive industries and the products range from: diagnosis and baseline generated for at least two countries; educational campaigns, IT/Software System designed; roadmaps to deliver capacity building and training programs; database of demand of governance in extractive industries and working papers.

### 13. RG-T2399: Open Government for Citizens<sup>41</sup>

3 Components			%
1	Design and monitoring of OG policies, strategies and action plans	\$ 190,000	15.2%
2	OG Capacity Building	\$ 345,000	27.6%
3	Knowledge production and dissemination	\$ 685,000	54.8%
4	Impact Evaluation Cost	\$ 30,000	2.4%
	Total	\$ 1,250,000	100%

This another Regional Technical Cooperation tackles innovative actions and solutions for a more transparent and efficient public services delivery. All IDB borrowing country members are beneficiaries, since it has the objective of supporting Latin American and Caribbean countries to:

<sup>41</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=RG-T2399>

Enhance Open Government (OG) policies, strategies, action plans and tools. The specific objectives of this TC are: (i) support countries in designing and monitoring OG policies, strategies and action plans; (ii) strengthen countries' capacities to effectively implement OG solutions in the areas of public services, integrity and civil participation; (iii) promote south-south and extra-regional cooperation and regional policy dialogue. (RG-T2399, p.1)

The Bank is the Executing Agency, that is justified by the strong demand from citizens all over the world for governments to become more accountable and to have a better delivery of public services. It had three components:

- **Component 1:** “Design and monitoring of OG policies, strategies and action plans: This component seeks to assist governments in setting an OG policy and operational framework (RG-T2399, p.3)”
- **Component 2:** “This component is intended to support countries in building or strengthening their institutional capacities and creating innovative solutions for the implementation of specific OG activities within the three branches of Government, either at national or subnational levels. (RG-T2399, p.3)”
- **Component 3:** “This component is aimed to promote south-south and extra-regional cooperation (e.g. South Korea<sup>9</sup>, Norway, Spain, UK, US), knowledge generation, and strategic policy dialogue, in collaboration with other relevant stakeholders such as the OGP Support Unit and Networking Mechanism, and multilaterals also supporting OG in LAC. (RG-T2399, p.4)”

The Bank aims to support at least three countries in implementing and designing OG solutions, and countries are supposed to send official letters of assistance to the Bank.

#### 14. BR-L1254: Fiscal Modernization Project of the State of Sergipe<sup>42</sup>

3 Components	%
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<sup>42</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=BR-L1254>



1	Integration of finance administration	\$ 539,548	6.8%
2	Tax administration and litigation	\$ 2,640,729	33.2%
3	Financial and property administration and internal oversight of fiscal management	\$ 3,443,221	43.3%
4	Corporate resource management	\$ 864,407	10.9%
5	Project Administration	\$ 345,763	4.3%
6	Contingencies	\$ 125,332	1.6%
	Total	\$ 7,959,000	100%

This Loan Operation was approved in 2011, between the Bank and the state of Sergipe, in Brazil. It has the purpose of strengthening the “fiscal management in the State of Sergipe, by improving the strategic planning instruments, increasing own revenue, and offering better services to the citizens. (BR-L1254, p.3)”. There are four components and each has their own subcomponents:

- **Component 1:** Integration of finance administration: “Organizational development and integration of finance administration” and “National and international interagency cooperation (BR-L1254, p.4).”
- **Component 2:** Tax administration and litigation. This component aims for a more efficient and effective tax administration, financing “(i) inspection of goods in transit, incorporating tools for controlling goods traffic, the election and risk analysis of suppliers and carriers; and (ii) fiscal intelligence for selecting and auditing taxpayers, including tools and equipment for comparison of data for inspection (BR-L1254, p.4).”
- **Component 3:** Financial and property administration and internal oversight of fiscal management. A more efficient and effective financial administration is the purpose of this component, and it would finance “(i) a new public management model that incorporates budget planning/preparation/execution, financial execution, accounting, and auditing, based on a management information system; and (ii) a tax, budget, financial, and accounting

information management model, through a business intelligence tool, to subsidize audit actions (BR-L1254, p.4).”

- **Component 4:** Corporate resource management. Finally, this component has the goal of strengthening transparency mechanisms for a better communication to the society. The outputs are: “a. Enhancement of transparency mechanisms for fiscal management and communication with society. This subcomponent will finance the enhancement of the process of providing services to citizens residing outside the capital, using a mobile unit to service municípios that do not have brick-and-mortar service centers. b. Improved human resources management in the finance area. This subcomponent will finance the implementation of a new human resource management model in SEFAZ/SE, through the restructuring of skill profiles and staff mapping (BR-L1254, p.4).”

The expected outcomes, by the end of the project are:

“(i) one million vehicles per year with vehicle identification registration from tax inspection stations, subjected to the selection criteria established in the new model for the inspection of goods in transit; (ii) a 50% reduction in the average time vehicles remain at tax inspection stations; (iii) a 1% increase in ICMS collection, not including natural increase; (iv) a reduction in the average time it takes to prepare the State’s monthly balance sheets from 17 to 7 days; (v) 10% increase in web-generated state tax returns (DAE) from taxpayers located outside the state capital; and (vi) increase in total training from 20% to 60% aimed at fulfilling SEFAZ/SE’s strategic objectives. (...) The impacts expected from project execution are: (i) more effective tackling of tax evasion, especially in goods transit operations; (ii) improved budget and financial (BR-L1254, p.6).”

The Executing Agency of the programs is the Government of the State of Sergipe, acting through the State of Sergipe Department of the Treasury (SEFAZ/SE).

15. AR-L1127: Program for Strengthen. Provincial. Inst & Fiscal Managem. Stage II

(PROFIP II)<sup>43</sup>

3 Components <sup>44</sup>			%
1	Strengthening of government's budget and financial management	\$ 21,000,000	46.7%
2	Institutional strengthening of sun-national public management	\$ 19,520,000	43.4%
3	Program Administration – Coordination Unit	\$ 3,540,000	7.9%
4	Monitoring, evaluation, audit and unforeseen	\$ 940,000	2.1%
	Total	\$ 45,000,000	100%

The final project is a LO between the Bank and the Government of Argentina, approved in 2012. Its purpose was to strengthen public institutions for that on the national and sub-national public administration may take decisions based on performance and results. It aims to modernize the public expenditure system and to strengthen results based management on public institutions. It has three components:

- **Component 1:** Strengthening of government's budget and financial management. The investments of this component were to be focused on the expansion and integration of the electronic Integrated System of Financial Management. By doing so, it was expected to have a system that would generate better coverage and support for planning and execution of public expenditure with results based management.
- **Component 2:** Institutional strengthening of sun-national public management. This component focused on strengthening national capacities to improve sub-national systems to deliver better services and products, with a focus on results during the process. Institutions would be analyzed to see which would be eligible for the funding and one of the criteria is to have adhere the Fiscal Responsibility Law.
- **Component 3:** Program Administration – Coordination Unit.

<sup>43</sup> <http://www.iadb.org/en/projects/project-description-title,1303.html?id=AR-L1127>

<sup>44</sup> Documents available are only in Spanish. Translation made by the author.

Products were, included: Plan of actions; extension of management tools; conceptual model designed; design and implementation of projects of institutional strengthening; capacitation of human resources; development and expansion of integrated systems; diagnosis on the current situation of the capacity of institutions. The Ministry of Economy and Public Finance is the Executing Agency.

### 4.3. Projects' Coding and Analysis

Once seen the IDB's projects selected through the random sample, it is necessary to analyze them to understand how effective the Bank is being on addressing anti-corruption and transparency policies with its BMC. It is necessary to ask what was the Bank trying to achieve with the projects. Is it the end of corruption on itself? To interpret the projects, they were coded under the following characteristics and codes:

Table 1: Projects' Codebook

Characteristics	Region	Year	Amount	Project Type	Topics
<b>Codes</b>	1- South America	1 - 2003	1- 0-1M	1 - Technical Cooperation	1 - Fiscal Management
	2- Central America	2 - 2004	2- 1.1-10M	2 - Loan Operation	2 - Transparency & Accountability
	3 - North America	3 - 2005	3- 10.1-20M		3 - Capacity Building & Training
	4 - Regional	4 - 2006	4 - 20.1-30M		4 - Governance & RBM
		5 - 2007	5 - 30.1-40M		5 - Procurement
		6 - 2008	6 - 40.1-50M		6 - Anti-Corruption
		7 - 2009			
		8 - 2010			
		9 - 2011			
		10 - 2012			
		11 - 2013			
		12 - 2014			
		13 - 2015			
		14 - 2016			
		15 - 2017			



The Results were the following<sup>45</sup>:

Table 2: Coding Results

Coding Results					
Project #	Region	Year	Amount	Project Type	Topics
1	4	4	1	1	2
2	1	7	2	2	2
3	2	9	1	1	1
4	1	13	1	1	1
5	1	4	4	2	1
6	1	5	1	1	2
7	1	4	2	2	3
8	4	11	1	1	3
9	1	3	1	1	4
10	1	8	1	1	6
11	1	9	1	1	5
12	4	9	1	1	4
13	4	12	2	1	4
14	1	9	2	2	1
15	1	10	6	2	1
<b>Total</b>	15				

Table 3: Coding Percentage Distribution<sup>46</sup>

Coding Percentage Distribution									
Region	%	Year	%	Amount	%	Project Type	%	Topics	%
Region 1	66.7%	1	0.0%	1	60.0%	1	66.7%	1	33.3%
Region 2	6.7%	2	0.0%	2	26.7%	2	33.3%	2	20.0%
Region 3	0	3	6.7%	3	0.0%	<b>Total</b>	100.0%	3	13.3%
Region 4	26.7%	4	20.0%	4	6.7%			4	20.0%
<b>Total</b>	100.0%	5	6.7%	5	0.0%			5	6.7%
		6	0.0%	6	6.7%			6	6.7%
		7	6.7%	<b>Total</b>	100.0%			<b>Total</b>	100.0%

<sup>45</sup> Refer to Annex I to see those results represented in percentages.

<sup>46</sup> The percentage distribution can be seen, in the form of graphs, on Annex 1.

		8	6.7%						
		9	26.7%						
		10	6.7%						
		11	6.7%						
		12	6.7%						
		13	6.7%						
		14	0.0%						
		15	0.0%						
		<b>Total</b>	100.0%						

Coding the projects, some important results appear.

- South America being the biggest recipient of projects on Transparency and Anti-Corruption from the Bank, with almost 67%<sup>47</sup>.
- The year of 2011 was the one with most number of projects approved.
- Most of the projects approved, 60%, are bellow US\$ 1,000,000-dollar investment.
- Almost 70% of the projects consist on Technical Cooperation and the remaining are Loan Operations, in which some of those TC are to support LO. This considerable difference may be explained on the easier process to sign a TC compared to a loan operation, and that they don't represent indebtedness by governments.
- 30% of the project fall in the "Fiscal Management" category, followed by Transparency & Accountability and Governance & RMB. It is important to emphasize, though, that those categories are remarkably close and some projects may address more than one of those topics.

The LO from the Bank are highly associated with improvement on fiscal management, fiscal policies, making systems more reliable and efficient.

Public Financial Management (PFM) plays a key role in the sound allocation and use of public resources and macroeconomic management. This is why PFM modernization can have a substantive impact on the effectiveness, efficiency, and transparency of public spending. The call to upgrade institutional, functional, and technological frameworks of PFM systems in Latin

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<sup>47</sup> It is important to keep in mind that some of the Regional Projects were also aimed at South American countries.

American countries has been significant as governments seek to achieve greater coverage, reliability, and timeliness of financial information (Pimenta & Pessoa, 2015, p. 1).

The growing pressure made by citizens to see better delivery of public services and better allocation of revenues coming from the taxes they pay increase justification for it.

## 5. Conclusion

Corruption is a problem all over the world, but it varies on how much it impacts citizens lives from country to country.

Latin Americans, in general, suffer the consequences of corruption their daily lives and the Inter-American Development Bank, as a significant actor in the region, cannot be taken for granted when analyzing what can be done to make the situation less harmful.

This thesis had the purpose of understanding how effective can the Bank be to support anti-corruption practices and foster transparency in LAC. But how deep can it be on this objective? What are the limitations imposed on it?

On the **Introduction**, the goal was to present how corruption may affect economic development, which is one of the goals that Multilateral Development Banks usually have.

The **Second Chapter** presented how corruption is a worldwide phenomenon and concern, therefore, it is something that major international institutions have as one of their targets to fight. It can be the main target, as of the case of Transparency International; or one of the concerns, as the cases of the World Bank and the United Nations Office on Drugs and Crime.

The **Third Chapter** was dedicated to the Inter-American Development Bank: its history and how it frameworks corruption and transparency.

Finally, the **Fourth Chapter** was dedicated to present the Bank's projects and present how they were coded.

While comparing IDB with the World Bank, it was possible to see that the worldwide approach that the second has and the limitations by IBRD Articles of Agreement make the two banks' approaches different from each other. IDB states, in its own Mission regarding fostering

Transparency, that it needs to work together with its clients to make the proposals happen, it cannot be a top down demand from the Bank.

Corruption is a major challenge in Latin America and the Caribbean and it will not end through solely IDB's projects, and the Bank is aware of it. But countries, sub-national and local governments, and specially the Civil Society, may become abler and have better tools to fight it. The fight against corruption is mostly internal to countries and it is up to societies to push for more accountable governments and vote for politicians who are committed with transparency and accountability.

By analyzing the projects, it is possible to see that the Inter-American Development Bank, despite some limitations and some lack of leverage it may have, has interesting tools to fight corruption and foster transparency. It provides resources for countries to improve communication, to improve internal systems and a better integration of them; to foster evaluation of policies, and helping create or improve Results Based Management for the efficiency of public policies.

The Bank acknowledges the difficulties and complexities on dealing with corruption. When countries sign loans with IDB, they are indebting themselves, therefore to have them signing loans that might impact corruption domestically can be an impediment for some politicians and government officials and make them not want to sign the deals in the first place.

By having almost 35% of its projects related to Fiscal Management issues, the Bank is working closely to Ministries of Finance (Treasuries) and their equivalents, and this means working closely to the Executive Branches. Demand to improve transparency in the public spending is important and a pressing issue to fight corrupt practices.

Being a Bank, managing more projects in this area is a logical path to take, although the sample didn't show projects with Central Banks (CB), which could also correlate to the work done by IDB. As regional institution that connect with CB, maybe it can be missing more projects with this actor, since those are the ones responsible for a coordination with treasuries to ensure government's cash management (Pimenta & Pessoa, 2015).

Another important aspect on the fight against corruption that was not possible to see on the projects selected on the random sample were projects to help the BMC to fight money laundry. To improve audit systems makes it harder for people to steal money.

IDB showed interesting programs that might help overcome some of its limitations.

First, the possibility of signing Technical Cooperation agreements with Civil Society, like addressed in Project 1 (RG-M1041) and to build their capacity to hold government officials accountable can be an interesting way for the Bank to overcome one of its inherited limitations. By addressing Anti-Corruption/Transparency and Civil Society under a Regional project, the Bank can fund organizations that most likely wouldn't get funding from domestic governments. It is an interesting was in which the Bank may overcome some of its inheriting difficulties.

This project is interesting because it presents a way in which the Bank can empower Civil Society for holding countries accountable for corruption practices. Although the purpose of this thesis was not to look at the projects at their completion, but at their approval, it is significant to see a Bank trying to put together Civil Society and the private sector in the fight against corruption. At the end, the Bank's database didn't provide a final evaluation document, but it shows some interesting products, including, a guide on how to recover assets stolen from corruption and a guide on how NGOs can support transparency on government's public purchases and how to support proposals on legislations and reforms.

Although some Technical Cooperation is designed to support Loan Operations, they seem to be a very interesting way in helping countries to address corruption, through projects that can be understood as more innovative, like the case *RG-T2399: Open Government for Citizens*.

Another significant one was *RG-X1129: Strengthening Governance in the Extractive Industries in LAC*, that tackle main economic areas in LAC: oil, gas and mining. Those areas, currently, are going through major scrutiny exactly on corruption scandals, like the one in Brazil with the state-owned oil company *Petrobras*, named *Petrolão*<sup>48</sup>.

What seems to be missing on those projects are more actions with the other traditional branches of government, the legislative<sup>49</sup> and, especially, the judiciary.

## 5.1 Recommendations

As recommendations, firstly, it is important that the Bank reviews its website, since many of the projects on its database do not have the proper documentation available. And many of them, when available, are only in Spanish. As an important Regional Bank, it could make them available in English as well, at least. And, some projects that are already completed only have documents from the “approval”, or “implementation” time.

Second, for the most part, the projects follow one same structure, but not all the time, which they should. Most concern goes to the fact that some of them do not have Logical Frameworks, which makes it hard to understand how would the objectives be achieved; when; what was expected to have at the end of the projects. RBM techniques are not clear in some of the projects.

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<sup>48</sup> *Petrolão* is the corruption scandal involving Petrobras that is being under investigation over the Operation Car Wash. The Operation is an investigation carried out by the Brazilian judiciary system since 2014 that started as an investigation of money laundry but was expanded as allegations of corruption involving Brazil’s state owned oil company Petrobrás. It is now considered the biggest investigation that ever took place in the country and, summarizing it, it is alleged that executives of the company were accepting bribes to facilitate that a construction company’s cartel would get contracts with inflated prices. It is now estimated that the amount of money diverted from Petrobras is on the range of billions of dollars (Ministerio Publico Federal, 2016).

<sup>49</sup> It varies from country to country where Control Systems locate, but they can be under the legislative branch.

The demand to end corruption is getting stronger and louder in current times and citizens are becoming less tolerant to it. The Bank may become an even more important player in the region if it presents itself more as a funding resource to help achieving that.

Realistically, one of the most interesting ways for IDB to improve transparency and accountability in LAC is by empowering civil society and non-governmental organizations. But one important point is that those TC projects must be evaluated to see how effective those programs were.

It would be interesting to see a Thematic Evaluation performed by the Office of Evaluation and Oversight (OVE) on corruption and transparency<sup>50</sup>.

With the improvement and interconnectedness of internet, governments are being pushed to be more transparent and to be held accountable on corruption practices, as citizens become more and more intolerant to it. IDB, with its knowledge and presence in Latin America, may make itself more present and relevant by pursuing its borrowing member countries to endorse its recommendations and practices, by signing loans and technical cooperation that may help the region to start overcoming this significant challenge that it has.

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<sup>50</sup> There is a mid-term evaluation on IDB-9 Commitments that can be found here: <http://www.iadb.org/en/office-of-evaluation-and-oversight/ove,19686.html?>



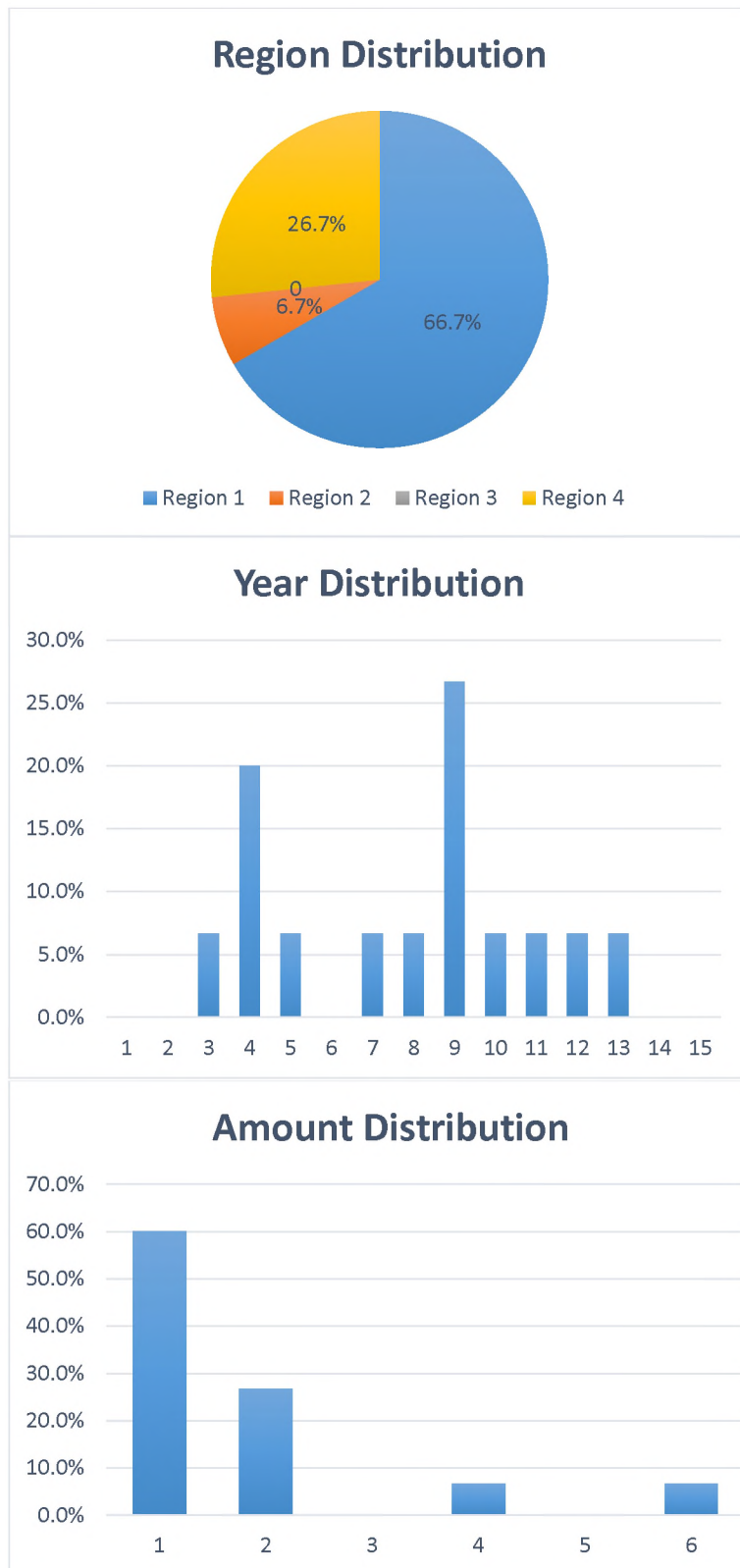
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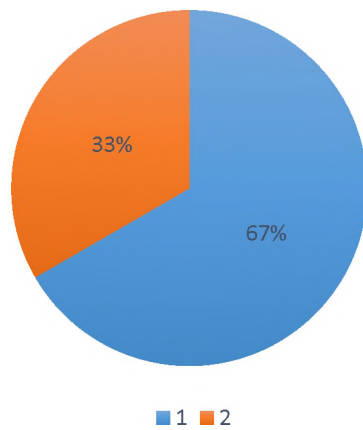
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## Annex I - Coding Results.



**Project Type Distribution**



**Topics Distribution**

